BLAST ENERGY SERVICES, INC.
Form SB-2
October 24, 2006

As filed with the Securities and Exchange Commission on October 24, 2006
Registration No. 333-___________

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BLAST ENERGY SERVICES, INC.
(Exact name of registrant as specified in its charter)

California	**1382**	**22-3755993**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

14550 Torrey Chase Boulevard, Suite 330
Houston, Texas 77014-1022
(281) 453-2888
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

John O’Keefe, Chief Financial Officer
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(281) 453-2888
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434 check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, no par value per share	42,268,552	$0.76 (1)	$32,124,100 (1)	$3,437.28

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) and Rule 457(h)(1) under the Securities Act of 1933, as amended and based on the average of the high and low sales prices of our common stock reported on the OTC Bulletin Board on October 20, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, dated October __, 2006

The information in this prospectus may not be complete and is subject to change. Selling security holders may not sell these securities until the registration statement, of which this prospectus is a part, filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

BLAST ENERGY SERVICES, INC.
14550 TORREY CHASE BOULEVARD, SUITE 330
HOUSTON, TEXAS 77014-1022
(281) 453-2888

PROSPECTUS

42,268,552 SHARES
COMMON STOCK

We are registering up to 42,268,552 shares of our common stock for sale by certain shareholders of our company identified in this Prospectus. These shareholders are referred to throughout this Prospectus as “selling stockholders.” Of the 42,268,552 shares of our common stock subject to this Prospectus, 23,404,052 shares of our common stock are currently issued and outstanding; 18,864,500 shares of our common stock are issuable upon the exercise of certain warrants, options and other rights.

The selling stockholders who wish to sell their shares of our common stock may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted at fixed prices, market prices or at negotiated prices, and the selling stockholders may engage a broker or dealer to sell their shares. We will not receive any proceeds from these sales, but we will receive proceeds from the exercise of any warrants, options or other rights. For additional information on possible methods of sale, you should see ‘Plan of Distribution’ on page 18.

The securities being registered trade on the OTC Bulletin Board under the symbol “BESV.OB”. On October 20, 2006, the last reported sales price of our common stock was $0.77 per share.

Investment in small businesses involves a high degree of risk, and investors should not invest any funds in Blast Energy Services, Inc. unless they can afford to lose their entire investment. See Risk Factors, beginning on Page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the Prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is October __, 2006.

BLAST ENERGY SERVICES, INC.

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Summary Information and Risk Factors

Summary Information

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding us and the securities being offered for sale by means of this Prospectus and our financial statements and notes to those statements appearing elsewhere in this Prospectus. This summary highlights material information contained elsewhere in this Prospectus.

General

Our mission is to provide quality services to the energy industry through our three divisions: contract land drilling, specialty completion applications, and satellite communication services to remote locations. Our strategy is to grow our businesses by maximizing our equipment capacity and controlling costs while analyzing potential acquisition and new technology opportunities in the energy service sector.

As a result of a recent acquisition, we established our contract land drilling business. We currently own three US onshore drilling rigs with an additional two land rigs near completion that are scheduled for field deployment in October and November of 2006, respectively. We have also contracted for a sixth rig scheduled for delivery in early 2007. Four of the rigs have the capability to drill from 10,000 to 12,000 feet and another two rigs have the capability to drill from 15,000 to 16,000 feet depending on casing size. Substantially all of our rigs can operate in conventional crude oil and natural gas producing areas, where conventional and specialized drilling techniques are required to develop crude oil and natural gas resources efficiently. All of our drilling rigs are equipped to handle drilling for horizontal wells. Horizontal drilling is a specialized drilling technique intended to increase the exposure of the wellbore to the natural gas producing formation and increase drainage rates and production volumes. We expect to generate revenues from our contract land drilling business by entering into dayrate contracts with oil and gas operators and producers to utilize the rigs and services. We presently have dayrate contracts with three customers for three of our drilling rigs and are in discussions with other potential customers for three additional rigs.

We expect upside growth potential from our down-hole energy solutions business. We have been striving to develop a commercially viable lateral drilling technology with the potential to penetrate through well casing and into reservoir formations to stimulate oil and gas production using abrasive fluid jetting (AFJ) and the principles gained from the non-abrasive process used in the Landers lateral drilling technology. After redesigning and improving the existing process and introducing AFJ technology, we now believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells. We have recently completed the construction of a new generation specialty rig based upon modifications using existing coiled tubing technology as the primary platform. The capabilities of our new rig include: one-inch coiled tubing with a working depth capability of 8,000 feet; a fluid pressure pumping system; an abrasive slurry system; and a computer-controlled system to guide and control the down-hole formation access tool for precise casing milling and jetting services. The new generation rig was deployed during 2006 and is currently undergoing developmental tests with the U.S. Department of Energy Rocky Mountain Oilfield Testing Center at their facility outside Casper, Wyoming. After the initial rig establishes a reliable and commercial oilfield service, we intend to begin construction of additional rigs with similar capabilities as the market demands.

Another business segment is providing satellite communication services to energy companies. This service allows them to remotely monitor and control well head, pipeline, drilling, and other operations through low cost broadband data and voice services to remote operations where terrestrial or cellular communication networks do not exist or are

too costly to install to meet customers commercial requirements. Longer term, our broader vision is to introduce additional early stage technologies to the energy services sector, all of which would fit our mission of helping energy companies produce oil and gas more economically.

Corporate History

We were originally incorporated in California in September 2000. In April 2003, we entered into a merger agreement with Verdisys, Inc. (“Verdisys”). Verdisys was initially incorporated as TheAgZone Inc. in 1999 as a California corporation. Its purpose was to provide e-commerce satellite services to agribusiness. We changed our name to Verdisys in 2001, and in 2003, with the acquisition of exclusive rights to a proprietary lateral drilling process throughout most of the U.S. and Canada, we changed our market focus to concentrate on services to the oil and gas industry.

The merger agreement with Verdisys called for us to be the surviving company. In connection with the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys’ common stock was converted into one share of our common stock, and our accident reconstruction assets were sold.

Effective June 6, 2005, we formally changed our name to Blast Energy Services, Inc. from Verdisys in part to reflect our focus on the energy service business. We have shifted our business strategy away from an agricultural related business toward energy services. We believe such a name change creates better name recognition related to the types of service that we intend to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company.

In August 2006, we acquired Eagle Domestic Drilling Operations LLC, a drilling contractor with three land rigs, and three more under construction and expected to be deployed in October 2006, November 2006 and early 2007, respectively. This acquisition adds a major new segment to our business, which is expected to be the primary segment near term.

Summary of the Offering

Shares outstanding before the offering	66,722,904 [1]
Shares offered by selling stockholders	42,268,552 shares of our common stock. [1][2]
Use of proceeds	We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive an aggregate of $ 9,182,170 upon the exercise of all of the warrants or options held by the selling stockholders if such warrants or options are exercised for cash. Such funds, if any, will be used for working capital and general corporate purposes.
Risk factors	The shares offered hereby involve a high degree of risk. You should carefully consider the information set forth in the 'Risk Factors' section of this Prospectus as well as other information set forth in this Prospectus, including our financial statements and related notes.
Plan of distribution	The offering of our shares of common stock is being made by stockholders of our company who may wish to sell their shares. Sales of our common stock may be made by the selling stockholders in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices.
OTC Bulletin Board Trading Symbol	"BESV.OB"

(1) As of October 20, 2006, including 1,150,000 approved shares arising from the class action settlement.

(2) As of October 20, 2006 and includes 18,864,500 shares of common stock issuable upon exercise of rights, warrants, or options.

<u>Risk factors</u>

Investing in our common stock is highly speculative and risky. You should be able to bear a complete loss of your investment. You should carefully consider the following risks and the other information in this Prospectus before investing in the shares. If any of the following risks and uncertainties develops into actual events, the business, financial condition and operating results could be materially adversely affected, and you could lose your entire investment. The risks and uncertainties described below are not the only ones which we face; there may be additional risks and uncertainties not presently known to us or those we currently believe are immaterial which could also have a negative impact on our business, financial condition, and operating results.

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THE RISK FACTORS DESCRIBED BELOW. THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE PURCHASING THE SHARES OFFERED HEREBY.

GENERAL RISKS RELATING TO OUR COMPANY

1. We have a limited operating history, just completed a major acquisition, and our business and marketing strategies planned are not yet proven, which makes it difficult to evaluate our business performance. An investor could lose some or all of his investment.

We have been in existence for a few years. We only recently completed a major acquisition of a drilling service contracting business and have no history with the business. We have not yet been able to commercialize the capabilities of our abrasive jetting technology and are not conducting operations with the prior technology. Abrasive jetting has been successfully commercialized in several industries but is not yet proven in the energy drilling industry. Also, we have conducted satellite services to the oil and gas industry only since June 2002. We have no established basis to assure investors that our business or marketing strategies will be successful. Because we have a limited operating history, there is little historical financial data upon which an investor may evaluate our business performance. An investor must consider the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies with limited capital in a rapidly evolving market. These risks and difficulties include our ability to meet our debt service and capital obligations, develop a commercial milling or jetting process with our abrasive jetting technology, attract and maintain a base of customers, provide customer support, personnel, and facilities to support our business, and respond effectively to competitive and technological developments. Our business strategy may not be successful or may not successfully address any of these risks or difficulties and we may not be able to realize revenues. If we are unable to generate sufficient revenue from new business arrangements or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

2. We have a limited customer base. The loss of those customers or the inability to attract new additional customers would have a material adverse effect on us.

In our contract land drilling business we recently acquired, we presently have three active customers under short term contracts. Due to the short-term nature of these contracts, we will either have to extend the contract or obtain replacements to generate continued revenue. The loss of these customers or the inability of us to attract other permanent customers to utilize our drilling rigs at the appropriate rates and terms would inhibit us from generating positive cash flow. If we are unable to generate sufficient positive cash flow from operations, we might not be able to satisfy our debt obligations. In such a case, if we were unable to restructure our debt or raise additional capital, we would be unable to continue in our current form and will be forced to restructure or seek creditor protection.

3. We are highly leveraged which limits our financial flexibility.

In order to finance the acquisition of our contract drilling business, we entered into a $40.6 million senior note, which is secured by substantially all of our assets. The note bears interest at the rate of prime plus 2.5%. This transaction makes the company highly leveraged. In addition, the note has monthly interest payments and principal payments until the loan is repaid in full in three years.

Our senior note also contains various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- Incur additional indebtedness or issue certain types of securities
- Pay dividends or make distributions of our capital stock
- Make certain investments, including capital expenditures
- Sell or merge certain assets
- Create liens and
- Consolidate, merge, sell or otherwise dispose of all or substantially all our assets

If we are unable to meet our debt service requirements, satisfy our debt covenants or any other event were to occur which would cause an event of default under the note, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

4. We may be unable to raise the additional capital needed to fund our businesses, which would prevent us from continuing operations.

We may need to raise additional funds through public or private debt or equity financing or other various means to fund our business if we are unable to successfully generate positive cash flow and service our debt. In such a case, adequate funds may not be available when needed or may not be available on favorable terms. If we need to raise additional funds by issuing equity securities, dilution to existing stockholders will result, and such equity may have rights, preferences and privileges senior to those of our common stock. We may be unable to raise additional funds by issuing debt securities due to our high leverage and due to restrictive covenants contained in our senior debt, which may restrict our ability to expend or raise capital in the future. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

5. Our auditors have expressed doubt as to our ability to continue as a going concern.

As noted in the Independent Auditors Report (See Financial Note 2), our continued substantial operating losses raise substantial doubt as to our ability to continue as a going concern. We are in an early stage of development and are rapidly depleting our cash resources, therefore we have determined that we will need to raise additional financing in the short term to continue in operation and fund future growth. If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

6. We experienced operating losses in 2004, 2005 and for the first two quarters of 2006, and this trend may continue. It is uncertain when, if ever, we will have significant operating income or cash flow from operations sufficient to sustain operations.

We suffered net losses since our inception, including net losses of $8,766,108 and $2,827,231 for the years ended December 31, 2004 and 2005, respectively and $1,977,717 for the six months ended June 30, 2006. These losses are the result of a sporadic revenue stream which has been inadequate to compensate for our operating and overhead costs as well as the impairment of our Landers license. The volatility underlying the early stage nature of our business and our industry prevents us from accurately predicting future operating conditions and results, and we could continue to have losses. It is uncertain when, if ever, we will have significant operating income or cash flow from operations sufficient to sustain operations. If cash needs exceed available resources additional capital may not be available through public or private equity or debt financings. If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

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7. We have historically had negative working capital, which will impair our ability to continue operations if we are unable to reverse this trend.

We had negative working capital of $1,249,000 and $644,000 as of December 31, 2004 and 2005, respectively, and negative working capital of $1,070,151 as of June 30, 2006. Due to this situation we have structured payments to vendors in a manner to continue operations. Our vendors may decide to stop providing services and/or materials until we are able to pay them according to their terms. Our vendors may decide to no longer offer credit to us. A large portion of our accounts payable are due to our legal support vendors and they may cease to assist us until we can make satisfactory payment arrangements. If we cannot raise capital, we will need our lenders to extend payment terms or accept stock in lieu of cash, which they may not be willing to do. If we are unable to arrange new financing or convince our lenders to extend payment terms or accept stock in lieu of cash, we may be unable to continue in our current form and be forced to restructure or seek creditor protection.

8. Significant amounts of our outstanding common shares are restricted from immediate resale but will be available for resale into the market in the near future, which could potentially cause the market price of our common stock to drop significantly, even if our business is doing well.

As of October 20, 2006, we had 66,722,904 shares of common stock issued and outstanding held by approximately 410 shareholders of record, including 1,150,000 shares approved for issue under the class action settlement. As restrictions on these outstanding shares end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them in an excessive amount relative to the market demand for our shares. An excessive sale of our shares may result in a substantial decline in the price of our common stock, and limit our ability to raise capital, even if our business is doing well.

9. We are subject to various contingent liabilities, which if determined adversely to us could result in a material adverse effect on us.

Our subsidiary Eagle Domestic Drilling Operations ("Eagle") is a defendant in a lawsuit initiated by Hallwood Petroleum alleging breach of contract with a claim of money damages in excess of $1.7 million. If this matter is determined adversely against Eagle, there could be a material adverse effect on us.

10. Two principal stockholders can influence the corporate and management policies of our company.

Thornton Business Security Trust and Berg McAfee Companies with its affiliates, effectively control approximately 25% and 17% of our outstanding common stock, respectively. Therefore, the Thornton Trust and Berg McAfee Companies may have the ability to substantially influence all decisions made by us. Additionally, these two major shareholder's control could have a negative impact on any future takeover attempts or other acquisition transactions. Furthermore, certain types of equity offerings require stockholder approval depending on the exchange on which shares of a company's common stock are traded. The control by two principal stockholders could result in less control by our board of directors, management and the remaining stockholders. For more information, please see 'Certain Relationships and Related Transactions.'

11. Our common stock is currently traded over the counter on the OTC Bulletin Board and is considered a "penny stock" resulting in potential illiquidity and high volatility in the market price of our common stock.

The market price of our common stock is likely to be highly volatile, as is the stock market in general, as well as the capital stock of most small cap companies. Our common stock currently trades over the counter on the OTC Bulletin Board, where stocks typically suffer from lower liquidity. This may lead to depressed trading prices, greater price volatility and difficulty in buying or selling shares in large quantities. Currently, there is a limited trading market for our common stock If a fully developed public market for the common stock does not occur, our stock will continue to

have reduced liquidity and our shareholders may have difficulty in selling our stock.

12. Because our common stock is considered a "penny stock," certain rules may impede the development of increased trading activity and could affect the liquidity for stockholders.

Penny stocks generally are equity securities with a price of less than $5.00 per share other than securities registered on certain national securities exchanges or quoted on the NASDAQ stock market, subject to certain exceptions for companies which exceed certain minimum tangle net worth requirements.

Our common stock is subject to the SEC "penny stock rules." The rules impose additional sales practice requirements on broker-dealers who sell penny stock securities to persons other than established customers and accredited investors. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of penny stock securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the "penny stock rules" require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. And, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These rules may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the secondary market. In addition, the penny-stock rules could have an adverse effect on our ability to raise capital in the future from offerings of our common stock.

On July 7, 2005, the SEC approved amendments to the penny stock rules to ensure that investors continue to receive the protections of those rules. The amendments also provide that broker-dealers be required to enhance their disclosure schedule to investors who purchase penny stocks, and that those investors have an explicit "cooling-off period" to rescind the transaction. These amendments could place further constraints on broker-dealers' ability to sell our securities.

13. Our markets may be adversely affected by oil and gas industry conditions that are beyond our control.

Oil and gas industry conditions are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. Those conditions could reduce the level of drilling and work-over activity by oil and gas producers. A reduction in activity could increase competition among energy services business such as ours, making it more difficult for us to attract and maintain customers, or could adversely affect the price we could charge for our services and the utilization rate we may achieve.

14. Our operations are subject to hazards inherent in the energy service business, which are beyond our control. If those risks are not adequately insured or indemnified against, our results of operations could be adversely affected.

Our operations are subject to many hazards inherent in the land drilling business, including, but not limited to blow outs, craterings, fires, explosions, equipment failures, poisonous gas emissions, loss of well control, loss of hole, damage or lost drill strings and damage or loss from inclement weather or other natural disasters.

These hazards are to some extent beyond our control and could cause, among other things, personal injury and death, serious damage or destruction of property and equipment, suspension of drilling operations, and substantial damage to the producing formations and surrounding environment.

Our insurance policies for public liability and property damage to others and injury or death to persons are in some cases subject to large deductibles and may not be sufficient to protect us against liability for all consequences of well disasters, personal injury, extensive fire damage or damage to the environment. We may not be able to maintain

adequate insurance in the future at rates we consider reasonable, or particular types of coverage may not be available. The occurrence of events, including any of the above-mentioned risks and hazards, that are not fully insured against or the failure of a customer that has agreed to indemnify us against certain liabilities to meet its indemnification obligations could subject us to significant liability and could have a material adverse effect on our financial condition and results of operations.

15. Our operations are subject to environmental, health and safety laws and regulations that may expose us to liabilities for noncompliance, which could adversely affect us.

The U.S. oil and natural gas industry is affected from time to time in varying degrees by political developments and federal, state and local environmental, health and safety laws and regulations applicable to our business. Our operations are vulnerable to certain risks arising from the numerous environmental health and safety laws and regulations. These laws and regulations may restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling activities, require reporting of the storage, use or release of certain chemicals and hazardous substances, require removal or cleanup of contamination under certain circumstances, and impose substantial civil liabilities or criminal penalties for violations. Environmental laws and regulations may impose strict liability, rendering a company liable for environmental damage without regard to negligence or fault, and could expose us to liability for the conduct of, or conditions caused by, others, or for our acts that were in compliance with all applicable laws at the time such acts were performed. Moreover, there has been a trend in recent years toward stricter standards in environmental, health and safety legislation and regulation, which may continue.

We may incur material liability related to our operations under governmental regulations, including environmental, health and safety requirements. We cannot predict how existing laws and regulations may be interpreted by enforcement agencies or court rulings, whether additional laws and regulations will be adopted, or the effect such changes may have on our business, financial condition or results of operations. Because the requirements imposed by such laws and regulations are subject to change, we are unable to forecast the ultimate cost of compliance with such requirements. The modification of existing laws and regulations or the adoption of new laws or regulations curtailing exploratory or development drilling for oil and natural gas for economic, political, environmental or other reasons could have a material adverse effect on us by limiting drilling opportunities.

16. Our success depends on key members of our management, the loss of whom could disrupt our business operations.

We depend to a large extent on the services of some of our executive officers and directors. The loss of the services of either John O'Keefe or David Adams could disrupt our operations. We may not be able to retain our executive officers and may not be able to enforce the non-compete provisions in the employment agreements. We maintain key man insurance against the loss of these individuals. Failure to retain key members of our management may have a material adverse effect on our continued operations.

17. Compliance with Section 404 of the Sarbanes-Oxley Act will strain our limited financial and management resources.

We expect to be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act ("Sarbanes") for our fiscal year ended 2007, which require annual management assessments of the effectiveness of our internal controls over financial reporting and our auditor's attestation report on management's assessment. During the course of our testing we may identify deficiencies, which we may not be able to remediate in time to meet the deadline imposed. Effective internal controls are necessary for us to produce reliable financial reports and may be important to prevent financial fraud. If we cannot comply with Section 404, our stock price may decrease as investors lose confidence in the accuracy of our reported financial information. Compliance with Section 404 will likely require the Company to expend significant financial and management resources, which are extremely limited at this time and would therefore divert such resources from our day-to-day operations.

18. Sales by Selling Shareholders could adversely affect the price of our common stock.

This Prospectus covers a total of 42,458,522 shares of our common stock, including 23,594,052 which are issued and outstanding and the balance which are issuable upon the exercise of outstanding options, warrants and other rights. Once the shares are registered, the shares may be sold into the open markets which could negatively affect our stock price.

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19. We do not intend to pay cash dividends on our common stock in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our stockholders.

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our board of directors. In addition, the terms of our senior note prohibit us from paying dividends and making other distributions. As a result, only appreciation of the price of our common stock, which may not occur, will provide a return to our stockholders.

RISKS RELATED TO OUR LAND RIG DRILLING SERVICES BUSINESS

1. Our land rig drilling services business is substantially dependent upon, and affected by, the level of U.S. onshore oil and natural gas exploration and development activity. If the level of that activity decreases, our business and results of operations could be adversely affected.

Our business and operations are substantially dependent upon, and affected by, the level of U.S. onshore oil and natural gas exploration and development activity. Such activity determines the demand for contract land drilling and related services. We have no control over the factors driving the level of U.S. exploration and development activity. Those factors include, among others, the following:

- Market prices for oil and gas
- Market expectations about the future path of oil and gas prices
- The cost of producing and delivering oil and gas
- Gas pipeline capacities
- Government regulations and trade restrictions
- Tax incentives or disincentives
- Geopolitical and economic uncertainties
- Production levels of OPEC and other major producers
- Natural gas imports by pipeline or by LNG tankers
- Alternative energy sources and energy conservation measures

Future levels of U.S. natural gas exploration and development activity may not increase or be maintained. If the current level of such activity is not maintained or increased, demand for our contract drilling services may decrease and our business and the results of our operations could be adversely affected.

2. The onshore contract drilling industry has experienced significant volatility in profitability and asset values. A decrease in demand or an increase in supply of contract drilling rigs could reduce operating results through the reduction of industry dayrates and revenues or charges related to asset impairment.

The onshore contract drilling industry has experienced significant volatility in profitability and asset values. This volatility has been due to changes in the level of U.S. oil and natural gas exploration and development activity. Currently, the onshore contract drilling business is experiencing increased demand for drilling services, principally due to improved oil and natural gas drilling and production economics. The increased activity in the exploration and production sector may not continue. In addition, ongoing movement or reactivation of land drilling rigs (including the movement of rigs from outside the U.S. into U.S. markets) or new construction of drilling rigs could increase rig supply and reduce contract drilling dayrates and utilization levels. We cannot predict the future level of demand for our contract drilling services, future conditions in the onshore contract drilling industry or future onshore contract drilling dayrates.

3. Components of our drilling rigs are more than 20 years old, and may require increasing amounts of capital to maintain and upgrade our rigs. Any failure to continue to invest capital could result in having fewer rigs available for service.

Certain components of our drilling rigs, excluding the mechanical and electrical parts, such as the derricks and sub-floors are more than 20 years old. Our rigs may require increasing amounts of capital and, to the extent we are unable to properly maintain our equipment, we could have fewer rigs available for service, which could adversely affect our financial condition and results of operations.

4. Given the small size of our rig fleet, we have very few customers. The loss of any one of those customers or the failure to remarket the rigs employed by those customers could have a material adverse effect on our financial condition and results of operations.

We have only one principal customer under term contract and a few one-well jobs under negotiation. Should our term customer choose not to continue to employ our services, we may not be able to successfully remarket the rigs that they choose not to employ. The loss of any of our principal customers or the failure to remarket the rigs employed by those customers could have a material adverse effect on our financial condition and results of operations.

5. Increased demand among drilling contractors for ancillary rig equipment, such as pumps, valves, drillpipe and engines, may lead to delays in securing ancillary equipment needed by the Company to operate its rigs in an efficient manner.

In recent months, the industry has experienced increased lead times in purchasing ancillary equipment for our drilling rigs. To the extent there are continued delays in being able to purchase important components for our rigs, certain of our rigs may not be available for operation or may not be able to operate as efficiently as expected, which could adversely affect our financial condition, results of operations and cash flows.

6. We intend to find ways to purchase additional drilling rigs and potentially upgrade some of our drilling rigs. Any delay in execution could result in a loss of revenue growth.

We intend to purchase additional drilling rigs and potentially upgrade some of our drilling rigs. All such investments are subject to risks of delay or cost overruns inherent in large construction projects. Among those risks are:

- Shortages of equipment, materials or skilled labor
- Long lead times or delays in the delivery of ordered materials and equipment
- Engineering problems
- Work stoppages
- Weather impacts
- Unavailability of specialized services
- Unanticipated cost inflation

These factors may contribute to delays in the delivery of additional or upgraded drilling rigs, which could result in a loss of revenue growth. Additionally, the Company may incur higher costs than expected, which would adversely affect the economics of such investments.

7. If we cannot keep our rigs utilized at profitable rates, our operating results could be adversely affected.

Our business has high fixed costs, particularly interest expense, and if we cannot keep our rigs utilized at profitable and cash flow positive levels, our operating results and liquidity could be adversely affected.

8. Our operations could be adversely affected by abnormally poor weather conditions.

Our operations may be conducted in areas subject to extreme weather conditions and often in difficult terrain. Depending on where the rigs are deployed, our operations may become curtailed because of cold, snow or muddy conditions. Unusually severe weather could further curtail operations and could have a material adverse effect on our financial condition and results of operations.

9. Increased competition in our drilling markets could adversely affect rates and utilization of our rigs, which could adversely affect our financial condition and results of operations.

We face competition from other contractors in our drilling markets. While price is a primary factor in the selection of drilling contractors, a contractor's safety record, crew quality, service record, equipment capability and location are also important factors. The addition of new rigs by existing competitors or new entrants into our markets could increase the supply of available rigs, which could adversely affect the rates we can charge and utilization levels we can achieve.

10. We may not be able to attract and retain the services of qualified operating personnel, which could restrict our ability to market and operate our drilling rigs or result in accidents and other operational difficulties.

Increases in both onshore and offshore U.S. oil and natural gas exploration and production and resultant increases in contract drilling activity have created a shortage of qualified drilling rig personnel in the industry. If we are unable to attract and retain sufficient qualified operating personnel, our ability to market and operate our drilling rigs will be restricted. In addition, labor shortages could result in wage increases, which could reduce our operating margins and have an adverse effect on our financial condition and results of operations. To the extent that we are required to hire less experienced personnel, we may experience accidents or other operational difficulties and incur related costs.

11. We face competition from competitors with greater resources that may make it more difficult for us to compete, which can reduce our dayrates and utilization rates.

Some of our competitors have greater financial, technical and other resources than we do that may make it more difficult for us compete, which can reduce our dayrates and utilization rates. Their greater capabilities in these areas may enable them to:

- Better withstand industry downturns;
- Compete more effectively on the basis of price and technology;
- Retain skilled rig personnel; and
- Build new rigs or acquire and refurbish existing rigs so as to be able to place rigs into service more quickly than us in periods of high drilling demand.

12. Increases in the supply of rigs could decrease dayrates and utilization rates.

An increase in the supply of land rigs, whether through new construction or refurbishment, could decrease dayrates and utilization rates, which would adversely affect our revenues and profitability. In addition, such adverse affect on our revenue and profitability caused by such increased competition and lower dayrates and utilization rates could be further aggravated by any downturn in oil and natural gas prices.

13. Our revenues and profitability could be negatively impacted if we are unable to successfully deploy rigs under construction and to be constructed.

We have a contract with Second Bridge LLC to complete the construction of two additional drilling rigs for us and to construct a third drilling rig during 2007. If we are unable to satisfy the payment obligations, or if Second Bridge is unable to complete the rigs as scheduled, or if customer demand for the rigs is not as strong as anticipated, our revenues and profitability will be significantly and adversely affected.

RISKS RELATED TO OUR DOWN-HOLE SOLUTIONS BUSINESS

1. We currently have no active customers. If we are unable to attract more permanent and active customers, we will not be able to generate revenue.

We currently have no active customers. The AFJ unit has been repaired following equipment problems with the coiled tubing unit but is now being mobilized to the Department of Energy test facility outside Casper Wyoming. The purpose of the test is to help better define the cutting capabilities of the technology by use of down-hole cameras and other techniques. If the technology is not commercialized, we will not be able to generate revenue for our abrasive jetting services. Our current indications of interest in the new AFJ drill rig may not convert into customer orders or cash revenue. If we are unable to attract new customers and generate sufficient revenue or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

2. Our business plan relies on the successful deployment of a new generation coiled tubing unit utilizing abrasive fluid jetting which has been unproven in the energy service industry.

Our abrasive jetting service intends to provide casing milling, well stimulation and lateral drilling services to oil and gas producers. Applications of such abrasive cutting techniques are a proven feature in industries as diverse as munitions disposal in the military, offshore platform dismantlement in the salvage industry and cutting specialty glass and steel in the machining business. We are currently building a custom drilling rig based on the abrasive jetting concept. Since we would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business, we cannot guarantee that our custom drilling rig design based on the abrasive jetting concept will be adequate, that the rig will be built correctly or timely, or that the abrasive jetting technology will stimulate additional oil and gas production. We may not achieve the designed results for the rig. Customers may not accept the services we offer. Any of these results would have a negative impact on the development of our abrasive jetting business.

3. We may not be able to protect our abrasive jetting technology. Providers utilizing an infringing technology may compete with us, which may impair the development of our abrasive jetting business.

The technology purchase agreement between Alberta and Blast allocates joint responsibility for maintaining the status of the patents underlying the technology with the U.S. Patent and Trademark Office to Alberta. In the event that both parties had to assume these responsibilities, additional pressure on our financial resources would result. Competition from infringers of our technology may significantly impair the development of our abrasive jetting business.

4. Our customers may not realize the expected benefits of enhanced production or lower costs from our abrasive jetting technology, which may impair market acceptance of our drilling services.

Our abrasive jetting business will be heavily dependent upon our customers achieving enhanced production, or lower costs, from certain types of existing oil and gas wells. Many of the wells for which the abrasive jetting technology will be used on have been abandoned for some time due to low production volumes or other reasons. In some cases, we could experience difficulty in having the enhanced production reach the market due to the gathering field pipeline system’s disrepair resulting from the age of the fields, significant amounts of deterioration of the reservoirs in the abandoned wells or the reliability of the milling process. Our abrasive jetting technology may not achieve enhanced production from every well drilled, or, if enhanced production is achieved initially, it may not continue for the duration necessary to achieve payout or reach the market on a timely basis. The failure to screen adequately and achieve projected enhancements could result in making the application of the technology uneconomic for our customers. Failure to achieve an economic benefit for our customers in the provision of this service would significantly impair the development of our abrasive jetting business and limit our ability to achieve revenue from these operations.

5. Geological uncertainties may negatively impact the effectiveness of abrasive jetting services.

Oil and gas fields may be depleted and zones may not be capable of stimulation by our abrasive jetting technology due to geological uncertainties such as lack of reservoir drive or adequate well pressure. Such shortcomings may not be identifiable. The failure to avoid such shortcomings could have a material adverse effect on our results of operations and financial condition.

6. Competition within the well service industry may adversely affect our ability to market our services.

The well service industry is highly competitive and includes several large companies as well as other independent drilling companies that possess substantially greater financial and other resources than we do. These greater resources could allow those competitors to compete more effectively than we can. Additionally, the number of rigs available

continues to exceed demand, resulting in active price competition. Moreover, many contracts are awarded on a bid basis, which further increases competition based on price. Failure to successfully compete within our industry would significantly impair the development of our abrasive jetting business and limit our ability to generate revenue from these operations.

7. The energy service market is currently experiencing tight supply conditions and key equipment items are subject to long lead-times as well as cost escalation.

We depend on the key equipment suppliers for our AFJ rigs to deliver in a timely manner and at a reasonable price, but lead-times in items, such as coiled tubing strings, have lengthened and prices have firmed with the current tightness in the energy service supply industry. If we are unable to source our key equipment in a reasonable period and at a reasonable price, our planned revenues and costs may suffer, which would have a material negative impact on our abrasive jetting business.

RISKS RELATED TO OUR SATELLITE COMMUNICATIONS BUSINESS

1. Our satellite business is highly dependent upon a few key suppliers of satellite networking components, hardware, and technological services.

Our satellite business is heavily dependent on agreements with Spacenet, ViaSat and other equipment and service providers. These strategic relationships provide key network technology, satellite data transport, hardware and software. Failure of Spacenet, ViaSat or other key relationships to meet our expectations or termination of a relationship with one of our key providers could adversely affect our ability to provide customers with our satellite services and could lead to a loss in revenues, which would adversely affect our results of operations and financial condition.

2. We depend upon our vendors and their affiliates to provide services that we require to operate the network we use to provide services to our customers.

We are not and do not plan to become a licensee of the Federal Communications Commission ("FCC") and do not hold any authorization to operate satellite communications facilities. We depend upon licenses held by Spacenet and ViaSat and their subsidiaries for our satellite communications. If the licenses held by Spacenet and ViaSat are limited or revoked, if the FCC limits the number of its customer premises earth stations or if Spacenet or ViaSat fails to operate the earth stations providing service to us and our subscribers in a satisfactory manner, we may not be able to provide our customers with proper service, which could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

3. We rely on third-party independent contractors to install our customer premises equipment at new subscribers' businesses and remote locations.

We do not control the hiring, training, certification and monitoring of the employees of our third-party independent contractors. If growth of our new subscriber base outpaces growth of our installer base or if the installers fail to provide the quality of service that our customers expect, the introduction of our service could be delayed, and which could lead to a deferment or loss in satellite revenues.

4. The service we provide is entirely dependent on the functionality of satellites on which we lease transponders and on our computer and communications hardware and software.

Our ability to provide service is entirely dependent on the functionality of satellites on which we lease transponders. These satellites may experience failure, loss, damage or destruction from a variety of causes, including war, anti-satellite devices and collision with space debris. The ability to provide timely information and services depends also on the efficient and uninterrupted operation of our computer and communications hardware and software systems. These systems and operations are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. Despite precautions, there is always the danger that human error or sabotage could substantially disrupt the system.

If any of these events occurs, we are likely to suffer:
- permanent loss of service;
- temporary gaps in service availability; or
- decreased quality of service.

Any such failure in the service we provide could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

5. We may be unable to attract or retain subscribers. If we are unable to attract or retain subscribers, our Satellite Communications business will be harmed.

Our success depends upon our ability to rapidly grow our subscriber base and retain our existing customers. Several factors may negatively impact this ability, including:

- loss of our existing sales employees, resulting in our lack of access to potential subscribers;
- failure to establish and maintain the Blast Energy Services brand through advertising and marketing, or erosion of our brand due to misjudgments in service offerings;
- failure to develop or acquire technology for additional value added services that appeals to the evolving preferences of our subscribers;
- failure to meet our expected minimum sales commitments to Spacenet and ViaSat; and
- failure to provide the minimum transmission speeds and quality of service our customers expect.

In addition, our service may require customers to purchase our satellite system equipment and to pay our monthly subscriber fees. The price of the equipment and the subscription fees may be higher than the price of many dial-up, DSL and cable modem internet access services, where available. In some instances, we expect to subsidize our subscribers' customer premises equipment to encourage the purchase of our service and to offset our higher relative costs but such subsidy may not be possible. Failure to attract or retain subscribers would affect our ability to generate satellite revenues.

6. We may fail to manage any potential growth or expansion, negatively impacting our quality of service or overcapacity impacting profitability.

If we fail to manage our potential rapid growth and expansion effectively or expand and allocate our resources efficiently, we may not be able to retain or grow our subscriber base. While we believe that the trend toward satellite broadband information services in the energy market will continue to develop, our future success is highly dependent on increased use of these services within the sector. The number of satellite broadband users willing to pay for online services and information may not continue to increase. If our assumptions regarding the usage patterns of our subscribers are wrong, our subscribers' usage patterns change or the market for satellite broadband services fails to develop as expected, we will have either too little or too much satellite capacity, both of which could harm our business.

If we achieve the substantial subscriber growth that we anticipate, we will need to procure additional satellite capacity. If we are unable to procure this capacity, we may be unable to provide service to our subscribers or the quality of service we provide may not meet their expectations. Failure to manage any potential growth may have a material adverse effect on our business and our ability to generate satellite revenues.

7. Our current services may become obsolete due to the highly competitive and continued advancement of the satellite industry. Larger service providers may provide services reduced pricing.

Intense competition in the internet services market and inherent limitations in existing satellite technology may negatively affect the number of our subscribers. Competition in the market for consumer internet access services is intense, and we expect the level of competition to intensify in the future. We compete with providers of various high-speed communications technologies for local access connections such as cable modem and DSL. We also may face competition from traditional telephone companies, competitive local exchange carriers and wireless communication companies. As our competitors expand their operations to offer high speed internet services, we may no longer be the only high-speed service available in certain markets. We also expect additional competitors with satellite-based networks to begin operations soon. In particular, some satellite companies have announced that in the future they may offer high-speed internet service at the same price or at a lower price than we currently intend to offer and are offering our services. The market for internet services and satellite technology is characterized by rapid change, evolving industry standards and frequent introductions of new technological developments. These new standards and developments could make our existing or future services obsolete. Many of our current and potential competitors have longer operating histories, greater brand name recognition, larger subscriber bases and substantially greater financial, technical, marketing and other resources than we have. Therefore, they may be able to respond more quickly than we can respond to new or changing opportunities, technologies, standards or subscriber requirements. Our effort to keep pace with the introduction of new standards and technological developments and effectively compete with larger service providers could result in additional costs or the effort could prove difficult or impossible. The failure to keep pace with these changes and to continue to enhance and improve the responsiveness, functionality and features of our services could harm our ability to attract and retain users, which could lead to a loss of satellite revenues.

8. We may be subject to significant liability for our products.

If our products contain defects, we may be subject to significant liability claims from subscribers and other users of our products and incur significant unexpected expenses or lost revenues. Our satellite communications products are complex and may contain undetected errors or failures. We also have exposure to significant liability claims from our customers because our products are designed to provide critical communications services. Our product liability insurance and contractual limitations in our customer agreements may not cover all potential claims resulting from a defect in one or more of our products. Failure of our products to perform satisfactorily could cause us to lose revenue, as well as to experience delay in or loss of market acceptance and sales, products returns, diversion of research and development resources, injury to our reputation or increased service and warranty costs.

Use of Proceeds

We will not receive any of the proceeds from the sale of our common stock offered by the selling stockholders. However, we may receive proceeds upon the exercise of all of the warrants, options or other rights held by the selling stockholders if such warrants, options or other rights are exercised for cash. The total potential proceeds from the exercise of these warrants, options or other rights are $ 9,182,170. Such funds, if any, will be used for working capital and general corporate purposes. We have agreed to bear all costs associated with the registration of the shares covered by this registration statement.

Selling Security Holders

This Prospectus covers a total of 42,268,552 shares of our common stock to be sold by the selling stockholders, including:

• 23,404,052 shares of our common stock issued and outstanding;

• 18,864,500 shares of common stock issuable upon exercise of outstanding warrants, options, or other rights.

After the registration statement of which this prospectus is a part becomes effective and subject to applicable rules and restrictions of the Securities Act of 1933, security holders may from time to time sell the shares on the OTC Bulletin Board or any other securities exchange or automated quotation system on which the common stock may be listed or traded, in negotiated transactions or otherwise, at the prices then prevailing or related to the then current market price or at negotiated prices. We shall neither be involved in determination of the price nor shall receive any proceeds from the sale of any shares sold by selling security holders. Shares being registered were issued to the selling stockholders in connection with transactions exempt from the registration requirements of the Securities Act of 1933, as amended.

Our common shares are currently traded on the OTC Bulletin Board under the symbol "BESV.OB."

The following table lists:

• all of the stockholders and amount of shares to be registered under this offering;

• the number of shares of our common stock (including those shares of our common stock underlying warrants) covered by this offering; and

• the amount of shares of our common stock owned by each such selling stockholder as of October 20, 2006 assuming that each such stockholder would sell all of his or her shares of our common stock that this offering registers.

Name of Selling Stockholder	**Number of Shares of Common Stock Beneficially Owned as of October20, 2006 (1)**	**Number of Shares of Common Stock Offered Hereby**	**Number of Shares of Common Stock Beneficially Owned After Offering**	**Percentage of Common Stock Beneficially Owned After Offering**
David M. Adams	1,045,433	105,000	940,433	1.4%
Alberta Energy Partners	3,810,000	2,810,000	1,000,000	1.4%
Francis Anderson	5,000	5,000	0	*
Berg McAfee Companies	9,883,386	82,074(3)	9,872,103	22.0%
BlausenLisi, L.P.	35,000	35,000	0	*
John Block	269,250	26,250	243,000	*
Michael C. Brown Trust	285,241	116,923(2)	168,318	*
Tess Brown Trust	95,080	38,974(2)	56,106	*
Clayton & McEvoy P.C.	30,000	30,000	0	*
Glenn A. Foster	2,418,750	2,418,750(5)	0	*
Friedland Corporate Investor Services, LLC	135,000	135,000	0	*
Roger P. Herbert	31,500	12,500	19,000	*
Scott Johnson	157,000	150,000	7,000	*
Helen Kohn	73,500	73,500	0	*
Brian Gabel	500	500	0	*
Laurus Master Fund	12,180,000(6)	12,180,000(6)	0	*
Linden Growth Partners	2,177,950	2,177,950(4)	0	*
Herman Livesay	1,075,000	1,075,000(5)	0	*
John MacDonald	158,950	31,250	127,700	*
Frayda Mason	73,500	73,500	0	*
Eric McAfee	1,213,048	82,074(3)	1,201,765	2.7%
McGuinness Ltd Partnership	235,000	100,000	135,000	*
Steve Nowell	167,120	43,750	123,370	*
O’Keefe Capital Partners	1,073,334	105,000	968,334	1.5%
Joseph Penbera	1,152,452	55,000	1,097,452	1.6%
Prima Capital Group	499,700	60,000	439,700	*
ProFab Equipment	33,333	33,333	0	*
Fred Ruiz	541,132	38,750	502,382	*
Second Bridge LLC	900,000	900,000(7)	0	*
Joseph Sofia	10,000	10,000	0	*
Maryellen Spedale	5,000	5,000	0	*
Charles Steinberger	900,000	900,000	0	*
Colt Stewart	20,000	20,000	0	*
Ronit Sucoff	73,500	73,500	0	*
Lisa Sucoff	73,500	73,500	0	*
Thornton Business Security Trust	16,447,500	16,447,500(5)	0	*
Richard Thornton	1,558,750	1,558,750(5)	0	*
Andrew Wilson	1,044,050	107,500	936,550	*
O. James Woodward III	278,875	38,750	240,125	*

Frederick G. Tripp Trust	95,080	38,974(2)	56,106	*
Totals	60,261,414	42,268,552	17,992,862	*

* Less than 1%.

(1) Includes common stock underlying unexercised option and warrant agreements.
(2) Represents shares issued for conversion of notes payable in December 2005 and for the payment of accrued interest for the 2nd, 3rd and 4th quarters of 2005
(3) Represents shares issued for conversion of notes payable in May 2006 and for the payment of accrued interest for the 2nd, 3rd and 4th quarters of 2005 and the 1st and 2nd quarters of 2006.
(4) Represents shares issued for cash in December 2005, May and July 2006 private placements, for conversion of notes payable in December 2005 and for the payment of accrued interest for the 2nd, 3rd and 4th quarters of 2005.
(5) Represents shares issued to the selling members of land rig drilling business.
(6) Represents warrants issued to senior lender in connection with the purchase of the land rig drilling business. Under the terms of the Warrants the holder is prohibited from exercising the Warrants in an amount which would cause the holder and its affiliates to beneficially own more than 4.99% of the common stock of Blast. This provision may be waived by the holder on 61 days prior written notice to Blast and becomes null and void following notice of an Event of Default under the Note.
(7) Represents shares issued for consulting fees on the construction of land drilling rig #17.

With respect to the above selling stockholders which are entities, to our knowledge the natural persons that have ultimate beneficial ownership of such entities are as follows:

Alberta Energy Partners - Mark McAfee and Mark Alley (neither Mark McAfee nor Alberta Energy are related to or affiliated with Eric McAfee or the Berg McAfee Companies);

Berg McAfee Companies - Clyde Berg, partner and Eric McAfee, partner and managing member.

BlausenLisi, L.P.- Bruce Blausen and Barbara Lisi;

Michael C. Brown Trust - Michael Brown, Trustee

Tess Brown Trust - Linda Kuhlman, Trustee

Clayton & McEvoy P.C. - Kevin C. Bedolla, Partner

Friedland Corporate Investor Services, LLC - Jeffery Friedland, managing member

Laurus Master Fund - David Grin, Director

Linden Growth Partners - Paul J. Coviello, President of General Partner, Linden Capital Management, LLC.

McGuinness Ltd. Partnership - Brady K. McGuinness;

O'Keefe Capital Partners - John O'Keefe, managing member. Mr. O'Keefe is Co-CEO and CFO of Blast.

Prima Capital Group, Inc. - Elias Argyropolous.

ProFab Equipment - Mike Campbell, President

Second Bridge, LLC - owned 75% by Thornton Construction and 25% by Norman Senior Care. Both firms are affiliated with Rodney D. Thornton.

Thornton Business Security Trust - Jeffrey Brown, Trustee. Rodney D. Thornton and his immediate family are beneficiaries of this trust.

Frederick G. Tripp Trust - Frederick Tripp and Terry Tripp, Trustees

None of these persons are directors, officers, or employees of us except as follows; (a) Directors: John Block, Roger P. Herbert, Scott Johnson, Joseph Penbera, Fred Ruiz, O. James Woodward III; (b) Officers: David M. Adams, John MacDonald, and John O'Keefe; (c) Employees: Andrew Wilson.

Plan of Distribution

We are registering the shares of common stock on behalf of the selling stockholders. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected at various times in one or more of the following transactions, or in other kinds of transaction:

• transactions on any national securities exchange or U.S. inter-dealer system of a registered national securities association on which the common stock may be listed or quoted at the time of sale;

• in the over-the-counter market;

• in private transactions and transactions otherwise than on these exchanges or systems or in the over-the-counter market;

• in connection with short sales of the shares;

• by pledge to secure or in payment of debt and other obligations;

• through the writing of options, whether the options are listed on an options exchange or otherwise;

• in connection with the writing of non-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options; or

• by a combination of any of the above transactions.

The selling stockholders and their successors, including their transferees, pledges or donatees or their successors, may sell the common stock directly to the purchaser or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling stockholder or the purchaser. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

In addition, any securities covered by this Prospectus which qualify for sale pursuant to Rule 144 of the Securities Act may be sold under Rule 144 rather than pursuant to this Prospectus.

We entered into a registration rights agreement for the benefit of the selling stockholders to register our common stock under applicable federal and state securities laws. We have agreed to bear certain expenses in connection with the registration of the shares subject to this Prospectus, but we will not receive any of the proceeds from the sale of the shares of common stock subject to this Prospectus by the selling stockholders except for payment of the exercise price in the event that the warrants are exercised. The registration rights agreement provides for cross-indemnification of the selling stockholders and us and our respective directors, officers and controlling persons against specific liabilities in connection with the offer and sale of the common stock, including liabilities under the Securities Act.

Legal Proceedings

Securities and Exchange Commission Investigation
In July 2006, Blast agreed to a settlement agreement with the Securities and Exchange Commission relating to the January 2004 formal investigation into our reporting practices and our public statements in 2003. Without admitting or denying the allegations, Blast entered into a final judgment which among other things permanently restrains and enjoins the Company from violation of Section 10(b) of the Exchange Act of 1934 and Rule 10b-5 thereunder. No civil penalties were assessed. The settlement is subject to court approval by the United States District Court for the Southern District.

Claims by Investor (Settled)
As previously disclosed, in July 2004, Gryphon Master Fund, L.P. ("Gryphon") filed suit in state district court in Dallas County, Texas against the Company alleging, among other things, breach of contract and securities fraud by the Company relating to an investment made by Gryphon. In February 2005, the Company entered into an Agreed Judgment and Order of Severance which settled all breach of contract claims relating to the delay by the Company in registering common stock issued by the Company to Gryphon in connection with the investment. The remaining claims were abated until September 30, 2005. On March 6, 2006, Gryphon made a settlement demand on the Company for $2.1 million, which it purported to represent the actual damages it had sustained. Blast filed a counterclaim in April 2006 for conversion and fraud by Gryphon for engaging in hedging transactions during its share holding period to enlarge the number of shares to which it was entitled in the event of price resets under the agreement between the parties.

On September 1, 2006, the Company made a cash payment of $550,000 to Gryphon in full settlement of the claims between the parties. Under the terms of the settlement, Blast received an executed release of judgment from Gryphon, who will file the necessary legal documents with the court to have all claims dismissed.

Hallwood Energy/Hallwood Petroleum Lawsuit
Following the acquisition of Eagle Domestic Drilling Operations ("Eagle"), we learned of a dispute pertaining to two IADC two year term drilling contracts between Eagle and Hallwood Energy/Hallwood Petroleum (Hallwood). Hallwood alleged that the rigs did not satisfy the weight capacity requirements under the contracts, and it ceased performance under the contracts. Following several attempts to resolve the dispute, Hallwood filed a lawsuit against Eagle in September 2006 in district court in Fort Worth, Texas alleging breach of contract by Eagle, and Eagle Drilling LLC. Hallwood has claimed that the derrick on Rig #12 was not up to contract capacity and that the alleged undercapacity resulted in unsafe conditions and damage to the rig. In addition, Hallwood has demanded that a prepayment of approximately $1.7 million under the contracts be returned to Hallwood. Eagle also plans to vigorously contest the claims by Hallwood. Eagle plans to file a claim for breach of contract by Hallwood and pursue its case for recovery of rig damage costs on Rig 12 and damages for early termination and loss of revenues under the two IADC contracts for Rigs 11 & 12.

Quicksilver Resources Lawsuit
Also after the acquisition of Eagle, we learned of a dispute pertaining to three other two-year IADC contracts with Quicksilver Resources ("Quicksilver"). Quicksilver asserted that the rig was not timely delivered and that it experienced mechanical problems which caused delays in a drilling operation. Following attempts to resolve the dispute, Quicksilver has filed a lawsuit in district court in Fort Worth, Texas asking for rescission of the contracts, requesting a declaratory judgment that the contracts are void, and asserting claims of negligence and breach of contract, among other claims, against Eagle and Eagle Drilling. Eagle intends to vigorously defend itself in this proceeding and has filed a countersuit asserting breach of contract, among other claims, against Quicksilver.

Concluding Statement

We have never been in bankruptcy, receivership or any similar legal proceeding. Other than described above, we are not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years. As part of its regular operations, we may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters. Although we can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, we believe that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our financial condition or results of operations.

Directors, Executive Officers and Control Persons

The names of our directors and executive officers and certain additional information with respect to each of them are set forth below. The dates set forth under "Year First Became Director" below indicate the year in which our directors first became a director of our predecessor in interest, Verdisys, Inc.

Name	Age	Current Position	Year First Became Director
David M. Adams	54	President & Co-CEO	N/A
John O'Keefe	57	Co-CEO & CFO	N/A
John R. Block	71	Director[1]	2000
Roger P. (Pat) Herbert	60	Director	2005
Scott W. Johnson	54	Director[1]	2006
Joseph J. Penbera, Ph.D.	58	Director[1]	1999
Jeffrey R. Pendergraft	57	Director	2006
Frederick R. Ruiz	63	Director	1999
O. James Woodward, III	71	Chairman of the Board[1]	1999

1 - Member of Audit Committee

Statements below pertaining to the time at which an individual became one of our directors, executive officers or founders refers to the time at which the respective individual achieved his respective status with our predecessor in interest, Verdisys, Inc.

David M. Adams has served as our President and COO since January 2004, and became Co-CEO in May 2004. From 1989 to 2000, Mr. Adams served as General Manager of Baker Hughes, E&P Solutions, and from 2001 to 2004; he served as President and General Manager of Subsea Mudlift Drilling Co., LLC, a subsidiary of Hydril Co., LP. Mr. Adams has a degree in petroleum engineering from the University of Texas and is a registered Professional Engineer.

John O'Keefe has served as our Executive Vice President and CFO since January 2004 and became Co-CEO in May 2004. From 1999 to 2000, Mr. O'Keefe served as Vice President of Investor Relations of Santa Fe Snyder, and from 2000 to 2003, he served as Executive Vice President and CFO of Ivanhoe Energy. Mr. O'Keefe has a B.A. in Business from the University of Portsmouth, is a Chartered Accountant and graduated from the Program for Management Development (PMD) from the Harvard Graduate School of Business in 1985 under sponsorship of Sun Oil Company.

John R. Block has served as a director since May 2000. He currently serves as Senior Legislative Advisor to Olsson, Frank and Weeda, P.C., an organization that represents the food industry. Prior to that, Mr. Block served as Secretary of Agriculture for the U.S. Department of Agriculture from 1981 to 1986. He currently serves as a director of John Deere and Co. and Hormel Foods Corp.

Scott W. Johnson*,* has served as a director since June, 2005. He has over twenty five years of investment banking experience in the energy industry - spanning public and private financings; debt, equity, hybrid and structured securities; corporate restructurings; and acquisitions, divestitures and stock mergers. He is currently co-founder and managing director of Houston-based GasRock Capital, LLC., an energy industry investment firm. He co-founded and became a Managing Director of Weisser, Johnson & Co in 1991 and prior to that he served as Vice President for Goldman, Sachs & Co. Johnson received his M.B.A. from Stanford University and his AB from Harvard College.

Roger P. (Pat) Herbert was elected to the Board at the 2005 Annual Meeting held June 6, 2005. He has worked in the energy services business for nearly 30 years. He is currently serving as a Director and CEO for JDR Cable Systems (Holdings) Ltd - a position he has held since 2002. Prior to that, he served as COO of Petris Technology for a year and before that he was the Chairman and CEO of GeoNet Energy Services, a company he founded in 2000. Prior to 2000 Mr. Herbert had worked with International Energy Services, Baker Hughes and Smith International. Herbert received his M.B.A. from Pepperdine University, his B.S.E. from California State University-Northridge and is a registered professional engineer in the State of Texas.

Joseph J. Penbera, Ph.D. co-founded our company and has served as a director since its inception in April 1999. Since 1985, he has been a Professor of Business at California State University, Fresno, where he previously served as Dean of the Craig School of Business, and was appointed a Senior Fulbright Scholar in 2005. Dr. Penbera was Senior Economist at Westamerica Bank, Regency Bancorp and California Bank from 1999 to 2002. Dr. Penbera is on the board of Gottschalks, Inc., a publicly traded regional department store and Rug Doctor, Inc. Dr. Penbera received his Ph.D. from American University, his M.P.A. from Bernard Baruch School and his B.A. from Rutgers University.

Jeffrey R. Pendergraft has served as a director since June, 2005. He currently serves as Chairman and CEO of HNNG Development, a company focused on commercialization of low BTU natural gas. In addition, he is the founder and principal of the Wind Rose Group, an energy investment and advisory firm. His broad background includes private investments, financings, mergers and acquisitions. He has been recognized for achievements in change management, corporate governance, finance, and legal affairs. Prior to forming Wind Rose in 2001, he was EVP and Chief Administrative Officer at Lyondell Chemical and prior to that he served as staff counsel for ARCO. Mr. Pendergraft received his Bachelor of Arts from Stanford University, and his Juris Doctor from Stanford University School of Law.

Frederick R. Ruiz has served as a director since its inception in April 1999. He co-founded Ruiz Food Products, Inc., a privately held frozen food company in 1964 and has served as Chairman of the Board since 1998. Mr. Ruiz currently serves as a director of McClatchy Newspapers, Inc. and Gottschalks, Inc., each of which are publicly traded, the California Chamber of Commerce and the Hispanic College Fund. During 2004, Mr. Ruiz was named to the California University System Board of Regents.

O. James Woodward III has served as a director since its inception in April 1999 and was elected Chairman of the Board in May 2004. From 1992 to 1999, Mr. Woodward was an attorney in private practice in Fresno, California. From 1995 to 2000, he was Chairman of MJ Construction Co., a Fresno, California based construction company, and from 2001 to 2003, he served as a consultant in Fresno, California. Mr. Woodward has been in private practice as an attorney since 2003 and is currently Of Counsel with Baker, Manock and Jensen. He currently serves on the board of Gottschalks, Inc. Mr. Woodward received his M.B.A. from Stanford Graduate School of Business and his J.D. from the University of California, Berkeley Law School.

All directors will serve in such capacity until the next annual meeting of our shareholders and until their successors have been elected and qualified. The officers serve at the discretion of our directors. There are no familial relationships among the our officers and directors, nor are there any arrangements or understanding between any of our directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

We have group life, health, hospitalization, medical reimbursement or relocation plans in effect. Further, we have a 401(k) savings plan in effect and agreements which provide compensation on the event of termination of employment or change in control of us.

We pay members of our Board of Directors fees for attendance at Board and other committee meetings in the form of cash compensation or similar remuneration, and reimburse them for any out-of-pocket expenses incurred in connection with our business. Currently, each independent director earns compensation of $1,000 per month with an

additional $1,000 per month for chairing a committee with the exception of the audit committee chair who receives an additional $2,000 per month and the Chairman of the Board who receives an additional $3,000 per month. Meeting fees are earned at a rate of $1,000 per day for regularly scheduled Board meetings and $500 per day for committee meetings. Currently, only the Chairman of the Board is receiving cash payments towards fees earned.

Additionally, the Chairman receives options to purchase 24,000 shares of our common stock per year and all other independent directors receive options to purchase 12,000 shares per year.

No non-compete or non-disclosure agreements exist between our management and any prior or current employer. All key personnel are employees or under contracts with us.

Our directors are aware of no petitions or receivership actions having been filed or court appointed as to our business activities, officers, directors, or key personnel.

We have not, nor anticipate making loans to any of our officers, directors, key personnel, 10% stockholders, relatives thereof, or controllable entities.

None of our officers, directors, key personnel, or 10% stockholders has guaranteed or co-signed any bank debt, obligation, or any other indebtedness pertaining to us.

Significant Employees

Richard Thornton has served as our Vice President of Drilling Operations since our acquisition of Eagle on August 25, 2006. Mr. Thornton served with Eagle and other privately owned drilling companies in a similar capacity for the past six years.

Audit Committee

Our Board of Directors has established an Audit Committee. The Audit Committee meets with management and our independent auditors to determine the adequacy of internal controls and other financial reporting matters. In addition, the committee provides an avenue for communication between the independent auditors, financial management and the Board. Our Board of Directors have determined that for the purpose of and pursuant to the instructions of item 401(e) of regulation S-B titled Audit Committee Financial Expert, Joseph J. Penbera, PhD possesses the attributes of an audit committee financial expert. Dr. Penbera is one of our Board members and is the Chairman of the Audit Committee. Dr. Penbera is independent as defined by item 401(e)(ii) of regulation S-B. He receives compensation for board service only and is not otherwise an affiliated person.

Code of Ethics

We have adopted a code of ethics that applies to our senior officers such as the principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. A code of ethics relates to written standards that are reasonably designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the SEC and in other public communications made by an issuer;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the code to an appropriate person or persons identified by the code; and
- Accountability for adherence to the code.

Our code of ethics was filed as Exhibit 14.1 of our 10-KSB for the year ended December 31, 2003. Our code of ethics is posted on our website at www.blastenergyservices.com. We will provide to any person without charge, upon

written request to our corporate secretary at our principal executive office, a copy of our code of ethics.

Security Ownership of Certain Beneficial Owners and Management

The following table presents certain information regarding the beneficial ownership of our common stock as of October 23, 2006 by (i) each person who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors, (iii) our Named Executive Officers, and (iv) all directors and executive officers as a group. Each of the persons listed in the table has sole voting and investment power with respect to the shares listed.

Common Stock

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Percentage of Class (1)
Thornton Business Security Trust 9037 Opus Drive Las Vegas, Nevada 89117	16,447,500	24.7%
Laurus Master Fund 825 Third Avenue, 14th Floor New York, New York 10022	12,180,000(3)	18.3%
Berg McAfee Companies (2) 100600 N. De Anza Blvd., #250 Cupertino, California 95014	9,883,386	14.8%
Alberta Energy Partners (16) 43 Brookgreen Circle North Montgomery, Texas 77356	3,810,000(4)	5.7%
Eric A. McAfee 100600 N. De Anza Blvd., #250 Cupertino, California 95014	1,213,098(5)	1.8%
David M. Adams President & Co-CEO	1,045,433(6)	1.6%
John O'Keefe Co-CEO & CFO	1,073,334(7)	1.6%
John R. Block Director	269,250(8)	*
Roger P. (Pat) Herbert Director	31,500(9)	*
Scott W. Johnson Director	157,000(10)	*
Joseph J. Penbera Director	1,152,452(11)	1.7%

Frederick R. Ruiz Director	541,132(12)	*
Jeffrey R. Pendergraft Director	12,000(13)	*
O. James Woodward III Director	278,875(14)	*
Total Shares of 5% or more Beneficial Ownership	44,285,010(15)	66.4%
Total Shares of Officers and Directors as a group	4,560,976	6.8%

* Less than 1%

Notes:

(1) Each beneficial owner's percentage ownership is based upon 66,722,904 shares of common stock outstanding as of October 20, 2006 and assumes the exercise or conversion of all options, warrants and other convertible securities held by such person and that are exercisable or convertible within 60 days after October 20, 2006.

(2) Berg McAfee Companies is controlled by Clyde Berg and Eric McAfee. Mr. McAfee is our former Vice-Chairman.

(3) Shares issuable upon exercise of warrant· Under the terms of the Warrants the holder is prohibited from exercising the Warrants in an amount which would cause the holder and its affiliates to beneficially own more than 4.99% of the common stock of Blast. This provision may be waived by the holder on 61 days prior written notice to Blast and becomes null and void following notice of an Event of Default under the Note issued to Laurus

(4) Includes 1,000,000 shares issuable upon exercise of warrants

(5) Does not include shares beneficially owned by Berg McAfee.

(6) Includes 641,667 shares issuable upon exercise of options.

(7) Includes 630,000 shares issuable upon exercise of options.

(8) Includes 101,000 shares issuable upon exercise of options.

(9) Shares issuable upon exercise of options.

(10) Includes 7,000 shares issuable upon exercise of options.

(11) Includes 101,000 shares issuable upon exercise of options.

(12) Includes 101,000 shares issuable upon exercise of options.

(13 Includes 7,000 shares issuable upon exercise of options.

(14) Includes 132,000 shares issuable upon exercise of options.

(15) Includes shares beneficially owned by Berg McAfee and Eric McAfee.

(16) Alberta Energy Partners is controlled by Mark McAfee and Mark Alley, who have investment decision and voting powers. Neither Mark McAfee nor Alberta Energy Partners are related to or affiliated with Eric McAfee or the Berg McAfee Companies.

Holders

As of October 20, 2006, we had 66,722,904 shares of common stock issued and outstanding held by approximately 400 shareholders of record, including 1,150,000 approved shares arising from the class action settlement.

Description of Securities

General

The following is a description of the material rights of holders of our common stock. For a complete description please refer to our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this Prospectus forms a part, and by applicable provisions of California law.

Common Stock

We are authorized to issue up to 100,000,000 shares of common stock, no par value per share, of which 66,722,904 were issued and outstanding as of October 20, 2006, including 1,150,000 approved shares arising from the class action settlement.

Holders of shares of our common stock are entitled to share equally on a per share basis in such dividends as may be declared by our Board out of funds legally available therefore. There are presently no plans to pay dividends with respect to the shares of our common stock. Upon our liquidation, dissolution or winding up, after payment of creditors and the holders of any of our senior securities, if any, our assets will be divided pro rata on a per share basis among the holders of the shares of our common stock. The common stock is not subject to any liability for further assessments. There are no conversion or redemption privileges, nor any sinking fund provisions with respect to our common stock, and our common stock is not subject to call. The holders of our common stock do not have any pre-emptive or other subscription rights.

Holders of shares of our common stock are entitled to cast one vote for each share held at all stockholders' meetings for all purposes, including the election of directors. Our common stock does not have cumulative voting rights.

Shares Outstanding and Freely Tradable After Offering

As of October 20, 2006, we had 66,722,904 shares of common stock issued and outstanding, including 1,150,000 approved shares arising from the class action settlement. The shares to be sold by the selling stockholders in this offering will be freely tradable without restriction or limitation under the Securities Act, except for any such shares held our by "affiliates," as such term is defined under Rule 144 of the Securities Act, which shares will be subject to the resale limitations under Rule 144.

Rule 144

In general, under Rule 144, as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned shares for at least one year, including an affiliate of us, would be entitled to sell, within any three-month period, that number of shares that does not exceed the greater of 1% of the then-outstanding shares of our common stock or the average weekly trading volume in our common stock during the four calendar weeks immediately preceding the date on which the notice of sale is filed with the SEC, provided certain manner of sale and notice requirements and requirements as to the availability of current public information about us is satisfied. Affiliates of ours must comply with additional restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell shares of our common stock. As defined in Rule 144, an "affiliate" of an issuer is a person who, directly or indirectly, through the use of one or more intermediaries controls, or is controlled

by, or is under common control with, such issuer. Under Rule 144(k), a holder of “restricted securities” who is not deemed an affiliate of the issuer and who has beneficially owned shares for at least two years would be entitled to sell shares under Rule 144(k) without regard to the limitations described above.

Effect of Substantial Sales on the Market Price of our Common Stock

We are unable to estimate the number of shares that may be sold in the future by our existing shareholders or the effect, if any, that such sales will have on the market price of the common stock prevailing from time to time. Sales of substantial amounts of our common stock, or the prospect of such sales in the absence of buying pressure, could adversely affect the market price of our common stock.

Interest of Named Experts and Counsel

Our balance sheet as of December 31, 2005 and the related statements of operations, stockholders' equity and cash flows for each of the two years then ended and the balance sheet of Eagle Domestic Drilling Operations, LLC as of December 31, 2005 and the related statements of revenues and expenses, owners' equity, and cash flows for the years ended December 31, 2005 and 2004 in this prospectus and the financial statements included for Eagle Domestic Drilling Operations have been audited by Malone & Bailey, PC, independent registered public accountants, to the extent and for the periods set forth in their report and we set forth in this prospectus in reliance upon such report given upon the authority of them as experts in auditing and accounting.

Disclosure of Commission Position on Indemnification for Securities Act Liabilities

Every person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or a person of whom he is the legal representative is or was a director or officer of the corporation or is or was serving at the request of the corporation for its benefit as a director or officer of another corporation, or as its representative in a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless to the fullest extent legally permissible under the general corporation law of the State of California from time to time against all expenses, liability and loss (including attorney's fees, judgments, fines, and amounts paid or to be paid in settlement) reasonably incurred and in advance of the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined by a court of competent jurisdiction that he is not entitled to be indemnified by the corporation. Such right of indemnification shall be a contract right which may be enforced in any manner desired by such person; and shall not be exclusive of any other right which such directors, officers or representatives may have or hereafter acquire and, without limiting the generality of such statement, they shall be entitled to their respective rights of indemnification under any bylaw, agreement, vote of stockholders, provision of law or otherwise, as well as their rights under our Articles of Incorporation.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Description of Business

Forward-Looking Statements

Certain statements concerning our plans and intentions included herein may constitute forward-looking statements, including, but not limited to, statements identified by the words "anticipate", "believe", "expect" and similar expressions and statements regarding our business strategy, plans, beliefs and objectives for future operations. Although management believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. There are a number of factors that may affect our future results, including, but not limited to, (a) our ability to obtain additional funding for development and operations, (b) the continued availability of management to execute the business plan, (c) successful deployment and market acceptance of our products, and (d) the resolution of legal matters that may inhibit the execution of the business plan.

This annual report may contain both historical facts and forward-looking statements. Any forward-looking statements involve risks and uncertainties. Moreover, future revenue and margin trends cannot be reliably predicted.

Corporate History

In September 2000 we were incorporated as Rocker & Spike Entertainment, Inc, a California corporation. Until December 31, 2000, operations consisted of organizational matters and the search for an operating company with

which to perform a merger or acquisition. Effective January 1, 2001, we purchased the assets and web domain of Accident Reconstruction Communications Network from its sole proprietor. Following the acquisition, we changed our name from Rocker & Spike Entertainment, Inc. to Reconstruction Data Group, Inc. At that time, we provided research, communication and marketing exposure to the accident reconstruction industry through our website and seminars.

In April 2003, we entered into a merger agreement with Verdisys, Inc. ("Verdisys"). Verdisys was initially incorporated as TheAgZone Inc. in 1999 as a California corporation. Its purpose was to provide e-Commerce satellite services to agribusiness. They changed their name to Verdisys in 2001, and in 2003, with the acquisition of exclusive rights to a proprietary lateral drilling process throughout most of the U.S. and Canada, they changed their market focus to concentrate on services to the oil and natural gas ("oil and gas") industry.

The merger agreement with Verdisys called for us to be the surviving company. In connection with the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys' common stock was converted into one share of our common stock, and our accident reconstruction assets were sold.

Effective June 6, 2005, we formally changed our name to Blast Energy Services, Inc. ("Blast" or "Blast Energy") from Verdisys in part to reflect our focus on the energy service business. We have shifted our business strategy away from an agricultural related business toward energy services. We believe such a name change creates better name recognition related to the types of service that we intend to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company.

In August 2006, we acquired Eagle Domestic Drilling Operations LLC, a drilling contractor with three land rigs, and three more under construction and expected to be deployed in October 2006, November 2006 and early 2007, respectively. This acquisition adds a major new segment to our business, which is expected to be the primary segment near term.

Business of Issuer

Blast Energy Services' mission is to provide quality services to the energy industry, including contract land drilling, specialty completion applications and satellite communication services to remote locations. Our strategy is to grow our businesses by maximizing our equipment capacity and controlling costs while analyzing potential acquisition and new technology opportunities in the energy service sector..

Our primary business is the provision of contract land rig drilling services to oil and gas companies in the U.S. Blast, as a result of an acquisition in August 2006, currently owns three US onshore drilling rigs with an additional two land rigs nearing completion that are scheduled for field deployment in October and November, respectively. Blast has also contracted for a sixth rig scheduled for delivery in early 2007. For a description of the acquisition agreement and other obligations relating to the contract drilling business, see the "Acquisition of Eagle Domestic Drilling Operations." Four rigs have the capability to drill from 10,000 to 12,000 feet and another two rigs have the capability to drill from 15,000 to 16,000 feet. Substantially all of our rigs are designed to operate in conventional crude oil and natural gas producing areas, where conventional and specialized drilling techniques are required to develop crude oil and natural gas resources efficiently. Our drilling rigs are equipped to handle drilling for horizontal wells. Horizontal drilling is a specialized drilling technique intended to increase the exposure of the wellbore to the natural gas producing formation and increase drainage rates and production volumes. Our principal operations are focused on the southwest and mid continent regions of the onshore U.S. for both crude oil and natural gas opportunities. Due to disputes with contract customers and the timing of construction, only three rigs were under contract at October 23, 2006 and we are actively attempting to market the rigs to other oil and gas operators.

We expect that our secondary segment will be our down-hole energy solutions business, where we foresee upside growth potential. We have been striving to develop a commercially viable lateral drilling technology with the potential to penetrate through well casing and into reservoir formations to stimulate oil and gas production using abrasive fluid jetting (AFJ) and the principles gained from the non-abrasive process used in the Landers lateral drilling technology. After redesigning and improving the existing process and introducing AFJ technology, we now believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells.. We have built our first new generation lateral drilling rig with the AFJ capability which utilizes high-pressure fluid mixed with a small volume of abrasive materials, such as fine garnet sand, to cut through surfaces as tough as four inches of steel as well as granite rock. During our initial commercial job in April 2006, while we believed that we were able to successfully cut through the well casing, but were unable to attempt to laterally drill due to a failure of some of the systems on the coiled tubing unit. Upon completion of these repairs in July, we returned to the test well location in Louisiana to further shakedown the rig and test its lateral drilling capabilities. We are currently testing the AFJ technology at Department of Energy well sites in Wyoming. If accepted by the market, the

capabilities of this new generation AFJ rig will allow us to expand to a wider range of well services, including specialty casing cutting, long reach and large bore perforating, lateral jetting and specialty completions. Should we achieve favorable results for our customers with this initial rig's capabilities, we intend to order the construction of up to three additional rigs and significantly grow the deployment of our abrasive jetting service.

Our final business segment is providing satellite communication services to energy companies. This service allows our customers to remotely monitor and control well head, pipeline, drilling, and other operations through low cost broadband data and voice services to remote operations where terrestrial or cellular communication networks do not exist or are too costly to install to meet customers commercial requirements. Longer term, our broader vision is to introduce additional early stage technologies to the energy services sector, all of which would fit our mission of helping energy companies produce oil and gas more economically.

Acquisition of Contract Land Drilling Business

On August 25, 2006, Blast acquired Eagle Domestic Drilling Operations, LLC, a Texas limited liability company ("Eagle") under a Definitive Purchase Agreement dated June 28th, 2006 as amended by the Extension Agreement dated August 3, 2006 and as further amended by the Amendment Agreement dated August 25, 2006. The purchase price was $50 million and 1.5 million shares of Blast common stock. Blast acquired Eagle, a privately held Texas-based drilling rig contractor from the members of the company ("the Members"). The acquisition of Eagle was financed with an investment through a securities purchase agreement made by Laurus Master Fund Ltd. of $40.6 million and associated note and warrants, along with a private placement of common equity, and associated warrants, to the former Members of Eagle.

Eagle is a Texas based drilling contractor currently which owns three drilling rigs and have an additional two rigs under final construction that are scheduled for field deployment in October, 2006. A sixth rig is under contract to be built for delivery in late 2006. Five of the six rigs were signed to two-year term drilling contracts with two major Texas based independent oil & gas companies. These drilling contracts were assigned to Eagle as part of the acquisition. The two contracts with Hallwood Petroleum ("Hallwood") have since been terminated by Blast and Blast is currently in litigation with Hallwood over those agreements. Blast is attempting to procure contracts with other customers. In addition to the drilling rig crews associated with the rigs being transferred to Blast, Richard D. Thornton, the Vice President of Operations for Eagle, has joined the Blast management team in the same capacity. Mr. Thornton has entered into an Employment Agreement with Blast for a period of 12 months at a salary of $150,000 per year, with associated bonuses, benefits, and stock options. Mr. Thornton, a former membership interest holder in Eagle, became a major shareholder of Blast following the transaction.

As part of the purchase agreement, $1 million of the purchase price is being held back by Blast to be released based on funding needs associated with the completion of the fourth and fifth drilling rigs which are under construction. These monies are expected to be fully released upon the completion and delivery into service of the two rigs in October, 2006.

Blast has also entered into a consulting contract with Second Bridge LLC, ("Second Bridge") a privately held Oklahoma limited liability company for the completion of Rig# 17, a sixth rig ("Rig# 17 Contract"). The Rig# 17 Contract calls for the utilization of existing parts purchased as part of the acquisition, the payment of an estimated $2.4 million to vendors for parts and labor, and the delivery of 900,000 shares of Blast common stock. The rig is expected to be completed in late 2006. As part of the Rig# 17 Contract, Second Bridge agreed to grant Blast a right of first refusal on any drilling rigs built by Second Bridge for a period of two years. Blast has also entered into a consulting contract with Second Bridge for a period of three years at $150,000 per month to provide such services as are agreed to between the parties, including operational, construction, and business development advisory services. Second Bridge is a manager managed LLC and its managers include Rick Thornton and Rodney Thornton. Rodney Thornton, thorough an affiliated entity Thornton Business Security Trust, is the beneficial holder of 12,622,500 shares of Blast. Rick Thornton is an officer of Blast.

As part of the financial consideration of the purchase, Blast entered into a Securities Purchase Agreement ("SPA") dated August 25, 2006 with Laurus to finance $40.6 million of the total purchase price. Under the SPA Blast issued a Secured Term Note ("the Note") dated August 25, 2006 in the original principal amount of $40.6 million with a final maturity in three years, with interest at prime plus 2.5%, with a minimum rate of 9%, payable quarterly. The principal is to be repaid commencing April 1st, 2007 at a rate of $800,000 per month for the first twelve months from that date, $900,000 per month for the subsequent twelve months and $1million per month until the Note matures. The remaining balance of the Note is to be paid at maturity with any associated interest. Blast can elect to repay the note at any time during the first twelve month at 110% of principal plus accrued interest, during the second twelve months at 105% of principal plus accrued interest and during the final twelve months at 100% of principal plus accrued interest. The SPA required the additional payment to Laurus of 3.5% of the total value of the total value of the investment of $40.6

million at closing. The SPA further required the issuance of Common Stock Purchase Warrants ("Warrants") to purchase 6,090,000 shares of commons stock of Blast at an exercise price of $1.44 per share, and an additional 6,090,000 shares of common stock at an exercise price of $0.01 per share. The Warrants have a seven year term and require Blast to file a registration statement to register the underlying shares with 60 days after closing and to obtain effectiveness with the SEC within 180 days after closing. If the Company fails to timely file the registration statement or have the registration statement declared effective within 180 days from the date of the Warrants, it may incur liquidated damages at a rate of 0.75% of the value of the investment per month with a cap of 7.5% of the amount of the debt. In addition, liquidated damages may also be incurred if shares underlying the Warrants become unregistered for specified times prior to maturity. Laurus has agreed not to sell any of the underlying shares of common stock for a period of 12 months and not to "short" the Company's stock in the publicly traded markets. Blast and Eagle have pledged their assets to Laurus in consideration for the investment, including the assets acquired in conjunction with the purchase. In addition, under the SPA, Blast agreed to restrictions on any dividends or distributions on its capital stock, agreed to not issue any short-term preferred stock, and agreed to not incur any indebtedness outside of the indebtedness to Laurus, other than for certain amounts of trade debt and certain outstanding indebtedness. The Laurus financing was privately arranged through a broker whose fees are payable in cash in the amount of 2 % of the principal amount of the facility and warrants with a two year term to purchase 304,500 shares of common stock of Blast at $0.01 per share.

In connection with the financing of the transaction, the former Members of Eagle agreed to purchase 15 million shares of Blast's common stock at a purchase price of $1.00 per share and receive warrants to purchase 5 million shares of Blast's common stock at a price of $0.01 per share with a two year term. The warrant agreements requires Blast to register the underlying shares of common stock with no holding period required.

Industry

We operate in the energy services industry which services the broader upstream energy industry, where companies explore, develop, produce, transport, and market oil and gas. This industry is comprised of a diversity of operators, ranging from the very small to the extremely large. While the major portion of oil and gas production is provided by very large international oil companies, there are also a large number of smaller independent companies who own and operate the vast majority of new and existing wells.

As a smaller firm with a specialized service, we intend to provide contract drilling, down-hole solutions and satellite communication services to both small and large operators in the energy industry. The contract drilling and down-hole solutions business segments are focused toward North American onshore-based independent producers while the satellite business already has several of the large oil and gas operators as customers. As we grow, we intend to cater to all segments of the industry in situations where the application of our services can add value to our customers.

Demand for our services depends on our ability to demonstrate improved economics, primarily to the oil and gas production sector we serve. We believe that they will use our contract drilling and abrasive jetting service where it costs less than alternative services and/or when they perceive it will enhance their production and reserves. It will also be driven by macro-economic factors driving oil and gas fundamentals. The report of the Energy Information Administration of the U.S. Department of Energy entitled “International Energy Outlook 2006” forecasts that world oil consumption will increase at an average annual rate of approximately 1.1% from 2004 to 2030 and that world natural gas consumption will increase at an average annual rate of approximately 0.7% over the same period. The projected increase in demand for oil is based on growth in the transportation and industry sectors in particular, and primarily in Asian emerging economies, such as China and India, as well as North America. The projected increase in gas consumption over this period is expected to result from higher demand across the electrical power, industrial and commercial sectors, as well as from the increasing use of gas as a source of fuel for electric power generation, particularly in North and South America, as well as other regions. We also believe that reliance on traditional sources of oil and gas will be limited due to the inadequate delivery infrastructure and political unrest in major supplying countries.

There are 1,337 trillion cubic feet (“Tcf “) of recoverable gas resources in the U.S. - enough to last decades - but some of it is off-limits to recover because of restrictive environmental rules and lawsuits. This is particularly the case with drilling moratoriums on the East and West Coasts of America, parts of the Rocky Mountain Area and Alaska. On its website, www.naturalgasfacts.org, the American Petroleum Institute advocates “A multi-pronged approach is essential for meeting future U.S. gas demand: (1) wiser energy use and conservation, where possible; (2) development of more U.S. supplies - both offshore and in the Mountain West; (3) construction of pipelines to bring Arctic gas to consumers; and (4) tapping into global markets through liquefied natural gas from a diverse array of suppliers.” We believe a more immediate impact can be made by exploiting existing U.S. supplies. Developing such supplies is dependent on drilling new wells in existing fields, or new reserves in expensive less accessible fields. We believe our lateral drilling technology can access previously uneconomic reserves and bring them to market cost effectively thereby helping to resolve this supply/demand imbalance.

We believe that producing companies will react to the combination of the increased demand and the decreased supply of oil and gas in a manner that requires them to utilize all segments of our business. We believe that oil and gas producers have great economic incentive to recover additional production and reserves from known reservoirs rather than pursuing a more risky exploration approach. Our drilling services business can help support increased US drilling activity and our abrasive jetting technology may permit producers to add value by potentially recovering a significant additional percentage of the oil and gas from a reservoir. We believe that there exists a large potential market in North America that comprises logical candidates to apply our contract drilling services and abrasive jetting stimulation methods.

Activity in the energy services industry tends to be cyclical with oil and gas prices. In addition to the currently positive industry fundamentals, we believe the following sector-specific trends enhance the growth potential of our business:

• While oil prices are unpredictable, they have remained and are projected to remain relatively high by historic terms for several years. Continuing high consumption and strong growth in Asian demand, limitations in delivery infrastructures and political unrest in major supplying countries are expected to be contributing factors.

• Gas prices, while volatile, are projected to remain high for several years due to the combination of strong demand and major supply constraints The situation is serious enough that Federal Reserve Bank Chairman Greenspan has expressed concern as to its effect as a constraint to US economic growth during his testimony before the Joint Economic Committee of Congress on May 21, 2003 and in updates since that time.

• There is no substitution threat to oil and gas in the foreseeable future. In particular, any significant substitution by hydrogen or any other potential source is believed by management to be some decades away.

Land Rig Drilling Services

We provide contract land drilling services and equipment, primarily to US oil and natural gas producers. We entered into this business in August, 2006 with the acquisition of Eagle Domestic Drilling Operations LLC ("Eagle") with three drilling rigs and an additional three under construction. We expect that the rigs will be deployed in various producing areas in North America, including East Texas, West Texas, the Barrett Shale near Fort Worth Texas, Oklahoma, North Louisiana and the Rocky Mountains region. These geological basins are generally characterized by unconventional natural gas formations with very low permeability rock, such as tight sands and shales. According to the EIA, unconventional natural gas production has recently become the largest source of onshore U.S. natural gas supply, and the EIA projects that unconventional production will continue to increase through 2025 and that conventional production will decrease over the same period. This projection is shared by many in the industry and the Barnett Shale has become one of the most active areas for drilling.

Drilling Industry Trends

Our business depends primarily on the level of drilling activity by U.S. natural gas and oil producers. The number of wells that producers drill is strongly influenced by recent trends in oil and gas prices and the outlook for future oil and natural gas prices. We believe that the following trends in our industry should benefit our operations:

· *Depletion of U.S. natural gas basins.* As illustrated by the EIA data depicted in the following chart, between 1980 and 2003, the number of producing natural gas wells in the U.S. more than doubled, from 182,000 to over 383,000 wells, while natural gas production was essentially flat. This resulted in a corresponding decrease of over 50% in the annual natural gas production per well over the period from 1980 to 2003. More recently, in the period from 1999 to 2003, the number of producing natural gas wells in the U.S. grew by 30%, or over 81,000 wells, while natural gas production was flat. In 2003, over 50% of natural gas produced in the U.S. was from wells less than three years old. In fact, natural gas produced from recently drilled wells, as a percentage of total U.S. natural gas production, has been steadily increasing in recent years. If these trends continue, progressively more wells must be drilled to maintain current U.S. natural gas production.

U.S. natural gas wells and production

· *Inability to expand natural gas imports rapidly.* According to the EIA, in 2003, 15% of U.S. natural gas demand was satisfied by net imports. Of these net imports of approximately 3.3 Tcf, 2.9 Tcf, or 86%, were via pipeline, primarily from Canada. The balance of 0.4 Tcf was imported liquefied natural gas (LNG). The EIA projects that Canadian imports of natural gas will decrease and LNG imports will continue to increase to meet growing natural gas demand in the U.S. While major investments are being made to increase LNG import capacity, the EIA estimates that LNG imports will still satisfy less than 10% of total U.S. natural gas demand at that time.

· *Trend towards unconventional natural gas resources.* Due to declines in production from conventional natural gas resources, improvements in extraction technologies and sustained increases in natural gas prices, natural gas producers increasingly are exploring for and developing unconventional natural gas resources. Unconventional resource formations are often characterized by continuous sands yielding significant low-risk opportunities.

· *Attractive natural gas prices.* Natural gas markets are typically regional due to the difficulty and cost of transporting huge quantities of the commodity needed to satisfy large markets like in the US. While U.S. natural gas prices have historically been volatile, average prices have increased for three consecutive years through 2005 and have softened in the Fall of 2006 due to excess inventories. We believe that the economics of drilling gas wells are considered to be sufficiently attractive to maintain exploration and development drilling activity.

· *US oil import deficit.* Unlike natural gas, oil prices are based on worldwide market supply and demand fundamentals and have many more influences affecting price levels. Examples include the high capacity utilization experienced by the OPEC producers and the high demand growth from developing countries such as China and India. This is exacerbated by geo-political tensions in the major oil producing regions such as recently experienced in the Middle East, none of which are driven by the US industry. Given that the US is the largest single oil consumer and imports more than 50% of its domestic crude oil consumption, every barrel of imported oil that can be displaced with domestic production positively impacts the nation's balance of trade. We believe this explains why Congress supports the domestic industry with tax and other incentives to drill and produce domestically.

· *Attractive oil prices.* Oil prices have reached record levels during 2006 due to high levels of global demand and little excess supply capacity in the producing countries exacerbated by geo-political tensions. The history of oil prices and US rotary rig counts suggest that currently high oil prices will tend to drive rig activity to higher levels than we have experienced in the mid 2000 era. We believe that if high oil and gas prices are sustained, there will be increased exploration and development drilling activity.

· *Increases in dayrates and operating margins for land drilling.* Higher oil and natural gas prices, coupled with accelerating decline rates of U.S. natural gas production, have prompted an increase in drilling activity, resulting in increased rig utilization and improvements in dayrates, other contract terms and cash margins.

Markets

Blast is marketing its rigs in the southwest and mid continent regions of the U.S., primarily in East Texas, West Texas, North Texas, Oklahoma, North Louisiana and in Arkansas. One of the most active areas for drilling has been the Barnett Shale formation, found near Fort Worth, Texas. At average depths of 6,500 to 8,500 feet, the Barnett Shale is the largest natural gas field in Texas. Although natural gas deposits were discovered there several decades ago, the technology necessary to economically exploit lower permeability reservoir rock was not available. The use of horizontal drilling to develop the formation, combined with the application of multi-stage fracturing techniques, has opened this formation to extensive drilling. More than 2,000 wells have been drilled there in the past five years.

Customers and marketing

Our potential customers are principally independent oil and natural gas producers. We market our drilling rigs primarily on a regional basis, through employee marketing representatives. Traditionally, rigs have been contracted on a well by well basis. With the recent strengthening of market conditions, however, we are observing a shift in contract terms towards longer duration contracts. Five of our six drilling rigs have two year term contracts at a fixed dayrate of $18,500 per day. Due to a contractual dispute with one of our two customers, we are actively marketing our rigs to a number of new potential customers.

Drilling contracts

Contracts for drilling oil and gas wells are obtained either through competitive bidding or through direct negotiations with customers. Typical drilling contracts provide for compensation on a "daywork" or "footage" basis. Contract terms we offer generally depend on the complexity and risk of operations, the on site drilling conditions, the type of equipment used and the anticipated duration of the work to be performed. Our contracts generally provide for the drilling of a single well or a series of wells and may permit the customer to terminate on short notice.

Daywork contracts. These are the most common form of contract, typically using the International Association of Drilling Contractors (IADC) standard form of contract. Under these contracts, we provide a drilling rig with required personnel to the operator, who supervises the drilling of the well. We are paid based on a fixed rate per day while the rig is utilized. The rates for our services depend on market and competitive conditions, the nature of the operations to be performed, the duration of the work, the equipment and services to be provided, the geographic area involved and other variables. Lower rates may be paid when the rig is in transit, or when drilling operations are interrupted or restricted by conditions beyond our control. In addition, daywork contracts typically provide for a separate amount to cover the cost of mobilization and demobilization of the drilling rig. Daywork drilling contracts generally specify the type of equipment to be used, the size of the hole and the depth of the well. Under a daywork drilling contract, the customer bears a large portion of out-of-pocket costs of drilling and we generally do not bear any part of the usual capital risks associated with exploration.

We currently have only dayrate contracts and have no footage, turnkey or other forms of contract.

Rig Information

A land drilling rig consists of engines, a hoisting system, a rotating system, pumps and related equipment to circulate drilling fluid, blowout preventers and related equipment. We use diesel engines as the main power sources for the drilling rigs. Power requirements for drilling jobs may vary considerably, but most land drilling rigs employ two or more engines to generate between 500 and 2,000 horsepower, depending on well depth and rig design.

There are numerous factors that differentiate land drilling rigs, including their power generation systems and their drilling depth capabilities. The actual drilling depth capability of a rig may be less than or more than its rated depth capability due to numerous factors, including the size, weight and amount of the drill pipe on the rig. The intended well depth and the drill site conditions determine the amount of drill pipe and other equipment needed to drill a well. Generally, land rigs operate with crews of four to six people.

Derrick hookload capacity and rig horsepower are the main drivers of depth rating on a vertical rig. They determine a rig's ability to lower, hoist and suspend casing and drilling pipe weight in the wellbore. Relative to total measured depth, horizontal wells have lower requirements on hookload and horsepower because casing, which is used to isolate the natural gas bearing formation from other geological features, is not run into the horizontal section of the well and once drill pipe is laying horizontally, its suspended weight and the power required to raise it decreases compared to a vertical wellbore of the same length. Circulating systems, which can be based on either fluid or compressed air, are used while drilling to evacuate cuttings and prevent the pipe from becoming stuck in the wellbore. Relative to vertical wells of the same measured depth, horizontal wells require greater circulating capability to move the cuttings from the horizontal section through a 90 degree curve to the initial vertical section of the wellbore.

We own 6 drilling rigs, three of which are currently operational and three are under construction. All of our rigs have been refurbished with new motors, pumps and electrical systems. Our rigs consist of engines, drawworks, mast, pumps, blowout preventers, drill pipe, and related equipment. The size and type of rig utilized depends, among other factors, upon well depth and site conditions. An active maintenance and replacement program during the life of a drilling rig permits upgrading of components on an individual basis. Over the life of a typical rig, which operates up to 24 hours a day, several of the major components, such as engines, air compressors, boosters and drill pipe, are replaced or rebuilt on a periodic basis as required. Other components, such as the substructure, mast and drawworks, can be utilized for extended periods of time with proper maintenance.

Our rigs are medium depth mechanical rigs equipped for fluid drilling and are capable of year-round operations. These configurations give us the ability to drill most types of wells drilled in our markets.

We believe that our drilling rigs and other related equipment are in good operating condition. Our employees perform periodic maintenance and minor repair work on our drilling rigs. We rely on various oilfield service companies for major repair work and overhaul of our drilling equipment when needed. We also plan to engage in periodic improvement of our drilling equipment. In the event of major breakdowns or mechanical problems, our rigs could be subject to significant idle time and a resulting loss of revenue if the necessary repair services are not immediately available.

Competition

We encounter substantial competition from other drilling contractors. Our primary market areas are highly fragmented and competitive. The fact that drilling rigs are mobile and can be moved from one market to another in response to market conditions heightens industry competition. Our principal competitors vary by region. We believe rig capability, pricing and rig availability are the primary factors our potential customers consider in determining which drilling contractor to select. In addition, we believe the following factors are also important:

- Mobility and efficiency of the rigs
- Safety records of the rigs and crews
- Crew experience and skill
- Customer relationships
- Offering of ancillary services
- Ability to provide equipment and personnel for new drilling techniques

While we must be competitive in our pricing, our competitive strategy generally emphasizes the quality of our equipment, the safety record of our rigs and the experience of our rig crews to differentiate us from our competitors. Contract drilling companies compete primarily on a regional basis, and the intensity of competition may vary regionally at any particular time. If demand for drilling services improves in a region where we operate, our competitors might respond by moving in suitable rigs from other regions.

Our competitors have greater financial, technical and other resources than we do. Their greater capabilities in these areas may enable them to better withstand industry downturns, compete more effectively on price and technology, better retain skilled employees, and access additional rigs in times of high demand by building or acquiring new rigs or refurbishing existing ones.

Raw materials

The materials and supplies we use in our drilling operations include fuels to operate our drilling equipment, drill pipe and drill collars. We do not rely on a single source of supply for any of these items. From time to time during periods of high demand we have experienced shortages.

Shortages result in increased prices for drilling supplies that we are not always able to pass on to customers. In addition, during periods of shortages, the delivery times for drilling supplies can be substantially longer. Any significant delays in our obtaining drilling supplies could limit drilling operations and jeopardize our relationships with customers. In addition, shortages of drilling equipment or supplies could delay and adversely affect our ability to obtain new contracts for our rigs, which could have an adverse effect on our financial condition and results of operations.

Down-hole Solutions

Our down-hole service intends to provide casing milling, perforation, well stimulation and lateral drilling services to oil and gas producers. As a co-owner of the intellectual property with Alberta Energy Partners ("Alberta") formerly known as Alberta Energy Holding, Inc., we also have exclusive worldwide licensing rights for the application of their patent pending Abrasive Fluid Jet ("AFJ") cutting technique to cut through well casing and formation rock in oil and gas wells. AFJ is being added to, and will enhance the existing principles of non-abrasive lateral jetting and completion techniques utilized by us and the industry. Applications of such abrasive cutting techniques are a proven feature in industries as diverse as munitions disposal in the military, offshore platform dismantlement in the salvage industry and cutting specialty glass and steel in the machining business. When we commercialize our technology, we would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business.

We have recently completed the construction of a new generation specialty rig based upon modifications using existing coiled tubing technology as the primary platform. The capabilities of our new rig include: one-inch coiled tubing with a working depth capability of 8,000 feet; a fluid pressure pumping system; an abrasive slurry system; and a computer-controlled system to guide and control the down-hole formation access tool for precise casing milling and jetting services. The new generation rig was deployed during 2006 and is currently undergoing developmental tests with the U.S. Department of Energy Rocky Mountain Oilfield Testing Center at their facility outside Casper, Wyoming. After the initial rig establishes a reliable and commercial oilfield service, we intend to begin construction of additional rigs with similar capabilities as the market demands.

Expanded Product Line

Our versatile AFJ product line offerings have been expanded greatly from the single oilfield service offered using the Landers technology. The product line now varies in scope and complexity from the provision of relatively simple services such as coil tubing pumping, tubing cleaning and cutting, window casing milling, and large bore perforations to the more technically challenging services of long reach lateral jetting, with or without well stimulation services, using materials such as propants to ensure integrity of the well bore and acid to stimulate release of hydrocarbons. Most of the services offered currently exist in the marketplace but our goal is to provide them more efficiently and effectively by adding the abrasive cutting capability. For example, the current industry standard for well perforation involves shooting multiple small holes into the well bore and out into the oil and gas formation 3 to 6 feet compared to our approach of blasting 2 to 4 inch diameter tunnels into the formation rock as far as 10 feet or more. Another example is casing milling, where conventional methods take far longer to mechanically cut windows into the casing than the abrasive cutting technique. Management believes that the industry will rapidly embrace such time and cost saving operations.

Our initial rig is configured to provide such services to a working depth of 8,000 feet. Given our current lack of experience in providing these new AFJ services, we are unsure which services will be better received by the market or which will be more profitable to the company. Consequently, 2006 and 2007 will be a period of learning much more about these markets for us.

Due to our unique and environmentally sound process, we believe that our AFJ product line will offer the ability to access previously uneconomic reserves and bring them to market cost effectively. These services should have appeal for both small independent operators as well as larger energy companies. At our lower comparative costs, we believe we can make it feasible to enhance production from a large potential market in North America and worldwide that would otherwise be cost prohibitive to recover. The existing independent oil and gas producers in North America are leading potential customers of these services. The company's strategy is to operate in North America as a service company and to accelerate worldwide growth by attempting to deploy the technology overseas via licensing of the technology to energy service companies in their geographic areas of greatest strength.

Lateral Jetting Services

Many of the nation's mature oil and gas fields contain new infield reservoir compartments and bypassed pockets of productive zones that have not previously been economic to produce. By extending 2 inch or greater diameter channels extended distances in multiple directions from the casing of the well, our lateral jetting service provides an potentially economic way to enhance production levels of existing reservoirs or by reaching new infield reservoirs or untapped reservoirs located near the existing vertical well. Our lateral drilling process uses a high pressure AFJ cutting technique, capable of drilling lateral holes from existing wells extended distances beyond the near well bore damage in wells at working depths as deep as 8,000 feet.

With conventional horizontal drilling, the transition from drilling vertically to horizontal drilling may take 200 feet or more and take many days to accomplish. With our patented technology, we can make this transition in two feet in an immediate fashion. This enables us to be extremely precise in targeting and staying within specific pay zones for a potentially significant enhancement to the production of the well.

We are developing abrasive jetting technology using specially designed deflection shoes, nozzles and hoses to drill 2 inch and larger diameter well bores into the producing formation in multiple directions around the well-bore. By increasing the surface drainage area opened to the producing reservoir, oil or gas production should be increased, which represents a potentially large value-added application in conventional drilling and completion operations. The figure below more precisely illustrates the process.

Our AFJ process is designed to work on both new and existing wells, but may have greater attraction to operators of marginal wells, whose production and basic economic performance could be greatly improved. The strong market potential arises from the realization that our service could negate the continual need for new drilling and denser infield drilling. Any fields that may be ready to be abandoned but have remaining resource potential can have their production re-established and their economic lives significantly extended if our abrasive jetting application is successful.

The figure below demonstrates how drilling multiple lateral wells from existing vertical well bores can drastically expand the production area within a given field. A typical vertical well will only recover petroleum from an area relatively near to the well bore. However, each lateral can extend in multiple directions from the well bore, thus potentially increasing the area of productive capacity several fold. With our lateral drilling process we have the ability to drill multiple laterals in different directions and at multiple depths within the same producing intervals in a matter of days.

Major Customers

We currently have no active customers as the rig has not yet been commercially successful. As previously indicated, during our initial job in Many, Louisiana, we were unable to laterally jet into foundation rock due to mechanical problems with the coiled tubing unit. Upon completion of the repairs to the coiled tubing unit, the rig will be further tested. In October 2006 we signed an agreement with the US Department of Energy to further develop the technology with their help at their Rocky Mountain Oilfield Testing Center facility outside Casper, Wyoming.

Customer Acceptance

We are encouraged by the level of interest from prior and prospective customers in the abrasive jetting technology as it relates to conventional oil and gas production as well as coal bed methane opportunities.

Our abrasive jetting service directly competes with the need for new wells by laterally drilling from existing wells to extend the pay zone resulting in increased production through existing well bores. Our ability to target new or previously untapped deposits makes our technology potentially very compelling. By cost effectively extending the accessibility of reserves through the existing well bore, our technology can provide an alternative for a customer to add value to an existing field as compared to conventional well fracturing and stimulation techniques or infield drilling programs. The field operator's next best economic alternatives are all more expensive than our service. This has the potential to be not only compelling economically but also very environmentally friendly because it uses previously established well bores rather than building new surface locations to drill new wells.

According to the Department of Energy Report - Natural Gas Fundamentals from Resource to Market, June, 2003, there are "Over 7,000 small independent businesses (that) drill 85% of wells and produce 65% of gas in the U.S. from over 350,000 U.S. wells." These independent producers are potential customers for our abrasive jetting service. In the same report it estimates 10,000 to 15,000 new gas wells are drilled and completed each year costing anywhere from less than $100,000 to several million. These new wells are necessary just to replace depleted supplies from existing wells in an effort to maintain current U.S. production levels.

Recent changes in U.S. tax laws provide for incentives to keep smaller oil and gas wells pumping even at lower energy prices. Operators of the nation's 650,000 marginally producing wells, representing approximately 25% of total U.S. production, receive tax credits of up to $9 per well per day. We believe such credits will be reinvested by the operators toward services such as abrasive jetting in an effort to increase production and the value of their oil and gas fields.

Market
It has become clear in recent years that while the demand of oil and gas in the U.S. continues to grow, its ability to meet this demand from existing and new sources is rapidly declining. This accelerated decline will require producers to seek new extraction methods or technologies to exploit oil and gas production from existing fields and we anticipate that our abrasive jetting process will help satisfy the need for these new technologies. According to the Department of Energy, there have been 2.3 million wells drilled in the U.S. since 1949. "Historically, only some 30% of the total oil in a reservoir - the "original oil-in-place" - was recoverable. As pressure declines in the reservoir, the oil becomes costlier and costlier to produce until further production becomes uneconomic…recent advances now allow greater recovery from old reservoirs."

Competition
Our AFJ business is expected to operate in a niche that lies between the more expensive and higher impact conventional horizontal drilling business and the much cheaper and lower impact casing milling and perforation businesses. Our abrasive jetting service can provide significant reservoir exposure, and therefore greater production potential, similar to horizontal drilling at a cost closer to that of a perforation service.

Conventional horizontal or directional drilling is slower and significantly more expensive to the extent that it is only being used if its much longer drilling radius was required as is necessary in offshore or environmentally sensitive areas. Companies offering this service include Halliburton, Baker Hughes, Schlumberger and other independent service companies. However, our competitors are better financed, equipped and resourced than us.

Satellite Communications

Our second business segment provides satellite communication services to oil and gas producers. It has been common practice to manually gather much of the data for energy management, and communicate using satellite phone or cellular service where available. This is not only expensive but also causes a significant time lag in the availability of critical management information. The Blast Satellite Private Network ("BSPN") services utilize two-way satellite broadband to provide oil and gas companies with a wide variety of remote energy management communications and applications. Satellite's capability to provide secure broadband to any remote location in the world gives it unique capabilities over terrestrial and cellular networks. Technology advancements now facilitate not only data, email and internet traffic but also Voice over Internet ("VoiP") and video streaming. Bandwidth traffic capabilities of base station have also increased significantly allowing larger and faster file and data transfer capabilities to compete with terrestrial systems. Satellites capability to operate off stationary and mobile remote dishes with no supporting infrastructure has proven invaluable in both disaster recovery and remote or continuously moving commercial operations.

Our satellite services can be optimized to provide cost effective applications such as VoIP, Virtual Private Networking "VPN" and Real-time Supervisory Control and Data Acquisition Systems, commonly referred to as SCADA. SCADA permits oil and gas companies to dispense with a manual structure and move to a real-time, automated, energy management program. Utilizing SCADA, a service we currently offer, production levels can be optimized to meet the producer's current market demands and commitments.

At present, we acquire modem hardware from ViaSat, iDirect Technologies and Spacenet and install this equipment on our customers' onshore and offshore platforms. Space segment services are acquired from SES and Loral and hub services from Constellation, Isotropic Networks, Viasat and Spacenet.

Blast uses satellite communications that are low cost and that ensure worldwide availability, even in geographic areas with a poor communications infrastructure. Our satellite services are based on industry standards to lower implementation costs and to simplify the integration into existing systems. Reliability and availability are critical considerations for SCADA. Satellite services are provided 24 hours a day, 7 days a week with 99.9% availability virtually anywhere in the world. There are fewer points of failure than comparable terrestrial services. They provide uniform service levels, are faster and more cost effective to deploy. Our satellite services are also very flexible and easily accommodate site additions, relocations, bandwidth expansion, and network reconfiguration.

Additionally, security, integrity, and reliability have been designed into our satellite services to ensure that information is neither corrupted nor compromised. Satellite communications are more secure than many normal telephone lines.

Major Customers

Our current satellite services customers include Apache Corporation, BP America Production Company, and Noble Energy with 22 remote sites, representing 16%, 23% and 16%, respectively, of our satellite revenues through December 31, 2006. We are also providing satellite services in West Africa to several multi-national companies. Contracts are usually for hardware, backhaul, and bandwidth. Virtually any oil and gas producer, of which there are thousands, is a potential customer for our satellite services.

Market

There are more than two million oil and gas wells in existence in the U.S. alone, many of which are located in remote or rural areas where communications and monitoring well status can be difficult and expensive. Such well locations could benefit from the economics of our real-time, high speed satellite connectivity services as compared to more conventional monitoring alternatives, such as, the time consuming and costly transportation of personnel to remote well locations, or the equipment and maintenance costs of laying land lines for real-time monitoring of remote well operations. Our focus is serving the needs of oil and gas producers worldwide to control their production effectively and to enhance customer satisfaction by providing worldwide real-time access to information. This market for satellite services is very competitive with increasing pressure on margins our larger competitors offer services at substantially discounted prices. We attempt to compete against such competitors by attempting to target niche markets and offering alternative solutions that solve customers' complex communication problems at more cost effective rates. We utilize satellite, Wi-Fi and other wireless technology for the last mile of wellhead connectivity for these customers and focus almost exclusively on the oil and gas market. The common denominator throughout is Multiple Protocol Label Switching "MPLS/ATM" network transport services.

Competition
The satellite communication industry is intensely competitive due to overcapacity, but the competition is less severe in the oil and gas producing sector. Other satellite services providers in the oil and gas industry include Petrocom, Stratus Global, Tachyon, Schlumberger and Caprock. Caprock, Schlumberger and Stratus are focused on the top 20% of the market, particularly international and offshore platforms, and Petrocom and Stratus Global are focused on the offshore market using a traditional wireless network. Our satellite services offer advantages over those services by:

• Customizing the provided service to better meet the customer's needs;
• Offering superior speed;
• Providing single vendor convenience; and
• Offering lower up-front infrastructure and operating costs.

Patents and Licenses

Effective August 25, 2005, Blast entered into a definitive agreement to purchase from Alberta an interest in the AFJ technology that enables Blast the unrestricted right to use the technology and license the technology worldwide to others. Blast expects to utilize the technology as the foundation for its energy services business. The agreement supersedes the previously existing licensing agreement between the parties.

As part of the agreement, Blast has agreed to issue to Alberta 3,000,000 shares of restricted common stock, with registration rights, and warrants to purchase 750,000 shares of Blast common stock at an exercise price of $0.45 per share. The warrants have a three-year term and are exercisable when Blast receives $225,000 in revenue from its initial rig utilizing the technology. Blast has agreed to pay a royalty payment of $2,000 per well bore or 2% of the gross revenues received, whichever is greater. The parties also agreed to share any revenues received by Blast from licensing the technology, with Alberta receiving 75% of licensing revenues until it receives $2,000,000 and then decreasing to 50% thereafter. Blast's ownership interest in the technology is 50%. Either party has a right of first refusal on any new applications of the technology by the other party, or any sale of the other party's interest in the technology.

Blast and Alberta also agreed to amend the existing construction agreement between the parties. The amendment increased the construction cost of the rig by $50,000 to $900,000. Under the amendment, the parties agree to share cost overruns, if any, equally up to a rig cost of $1,000,000, with Blast assuming responsibility of any costs above that amount.

On April 24, 2003 we entered into an agreement to license the Landers Horizontal Drilling Process, based on U.S. Patent Nos. 5,413,184, 5,853,056, and 6,125,949 relating to certain oil and gas well production enhancement techniques and devices and related trade secrets with the inventor and holder of the patents and trade secrets, Carl Landers. The license gave us exclusive rights to apply the technology and the related trade secrets in all of the U.S. (except for part of Colorado West of the Rockies, and Utah) and Canada. Mr. Landers also reserved the rights to certain applications in which he has a direct interest but may not compete with us. Any improvements to the technology remain the sole property of the licensor but are provided to us without additional licensing fees. The license terminates upon the expiration of the underlying patents, the earliest date being October 1, 2013.

On March 8, 2005, we entered into an Assignment of License Agreement ("Assignment") with Maxim TEP ("Maxim"). The President and CEO of Maxim is Dan Williams, our former President and CEO. Under the assignment, we assigned to Maxim our rights in the license of the Landers Horizontal Drilling Process; all current and future negotiations for assignments, sublicenses or territorial royalty pertaining to the license and two lateral drilling rigs. As consideration, Maxim has paid $1,300,000 in principal payments and $500,000 in penalties for extending the payment deadlines and released a $270,000 credit obligation we owed to Maxim. We will retain a non-exclusive sublicense

interest in the Landers Horizontal Technology provided we pay all required royalties in utilizing the technology.

We believe the AFJ technology and related trade secrets are instrumental to our competitive edge in the oil and gas service industry. We are highly committed to protecting the technology. We cannot assure our investors that the scope of any protection we are able to secure for our license will be adequate to protect it, or that we will have the financial resources to engage in litigation against parties who may infringe on our exclusive license. We also can not provide our investors with any degree of assurance regarding the possible independent development by others of technology similar to that which we have licensed, thereby possibly diminishing our competitive edge.

Governmental Regulation

Once we begin commercial drilling operations, we may be subject to various local, state and federal laws and regulations intended to protect the environment. Such laws may include among others:

- Comprehensive Environmental Response, Compensation and Liability Act;
- Oil Pollution Act of 1990;
- Oil Spill Prevention and Response Act;
- The Clean Air Act;
- The Federal Water Pollution Control Act; Louisiana Regulations and
- Texas Railroad Commission Regulations.

These operations may involve the handling of non-hazardous oil-field wastes such as sediment, sand and water. Consequently, the environmental regulations applicable to our operations pertain to the storage, handling and disposal of oil-field wastes. State and federal laws make us responsible for the proper use and disposal of waste materials while we are conducting operations. As our operations are presently conducted, we do not believe we are currently required under applicable environmental laws to obtain permits to conduct our business. We believe we conduct our operations in compliance with all applicable environmental laws, however, there has been a trend toward more stringent regulation of oil and gas exploration and production in recent years and future modifications of the environmental laws could require us to obtain permits or could negatively impact our operations.

We depend on the demand for our products and services from oil and natural gas companies. This demand is affected by changing taxes, price controls and other laws relating to the oil and gas industry generally, including those specifically directed to oilfield operations. The adoption of laws curtailing exploration and development drilling for oil and natural gas in our areas of operation could also adversely affect our operations by limiting demand for our products and services. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing legislation regulations or enforcement.

Our satellite services utilize products that are incorporated into wireless communications systems that must comply with various government regulations, including those of the Federal Communications Commission (FCC). In addition, we provide services to customers through the use of several satellite earth hub stations, which are licensed by the FCC. Regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (1) restricting development efforts by us and our customers, (2) making our current products less attractive or obsolete, or (3) increasing the opportunity for additional competition. Changes in, or our failure to comply with, applicable regulations could materially harm our business and impair the value of our common stock. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for these products and services, generally following extensive investigation of and deliberation over competing technologies. The delays inherent in this government approval process have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems. This, in turn, may have a material adverse effect on our sales of products to our customers.

Research and Development Activities

During 2005, 2004 and during the second quarter of 2006, we incurred an insignificant amount of research and development costs as it relates to our abrasive jetting process. We incurred no research and development costs in our satellite business.

Employees

As of September 30, 2006, we had a total of 56 full time employees . We also utilize independent contractors and consultants to assist us conducting the drilling and abrasive jetting operations, installing the satellite equipment,

maintaining and supervising such services in order to complement our existing work force, as needed. Our agreements with these independent contractors and consultants are usually short-term. We are not a party to any collective bargaining agreement with any employees, and believe relations with our employees, independent contractors and consultants are good.

Description of Property

Office Facilities
We lease approximately 3,000 square feet of office space in Houston, Texas for our principal executive office at a cost of $4,000 per month. Our lease expires in August of 2007.

Equipment
As of September 30, 2006, our primary equipment consisted of three operational medium depth mechanical drilling rigs and three similar drilling rigs under construction but scheduled for near term delivery. We also own one mobile AFJ coiled tubing unit, which has been deployed for research and development testing during October 2006 at the U.S. Department of Energy Rocky Mountain Oilfield Testing Center. We also maintain certain satellite communication equipment, computer equipment, and furniture at our principal executive office. Following the August 25, 2006 acquisition of eagle Domestic Drilling Operations we purchased six land drilling rigs in varying states of completion.

On March 8, 2005, Blast assigned its rights in the license of the Landers Horizontal Drilling Process to Maxim along with all current and future assignments, sublicenses or territorial royalty pertaining to the license. In connection with the assignment, Blast sold two of its three drilling rigs for the release of a customer deposit obligation that we owed Maxim. Maxim has taken delivery of both rigs. The other rig was transferred to Edge Capital, as part of the settlement agreement. As a result, Blast no longer owns any of the older generation non-abrasive drilling rigs.

We believe that our facilities and equipment are in good operating condition and that they are adequate for their present use.

Insurance
Our operations are subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, implosions, fires and oil spills. These conditions can cause:

a) personal injury or loss of life
b) damage to or destruction of property, equipment and the environment
c) suspension of operations

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We maintain insurance coverage that we believe to be customary in the industry against these types of hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and some policies exclude coverage for damages resulting from environmental contamination. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a materially adverse effect on our financial condition and results of operations.

Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the Financial Statements and Notes thereto included in this report. All statements that are included in this Report, other than statements of historical fact, are forward-looking statements. You can identify forward-looking statements by words such as "anticipate", "believe" and similar expressions and statements regarding our business strategy, plans and objectives for future operations. Although management

believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The forward-looking statements in this filing involve known risks and uncertainties, which may cause our actual results in future periods to be materially different from any future performance suggested in this report. Such factors may include, but are not limited to, such risk factors as: changes in technology, reservoir or sub-surface conditions, the introduction of new services, commercial acceptance and viability of new services, fluctuations in customer demand and commitments, pricing and competition, reliance upon subcontractors, the ability of our customers to pay for our services, together with such other risk factors as may be included in this report.

On August 25, 2006 we completed the acquisition of Eagle Domestic Drilling Operations, LLC, a Texas limited liability company ("Eagle"). Upon the acquisition of Eagle, we entered into the contract land drilling business. Our other businesses are our down-hole solutions business and satellite communications. The financial impact of this acquisition is presented on a pro-forma basis in the financial statements and notes thereto included in this report. Also see "Management's Discussion and Analysis or Plan of Operation - Liquidity and Capital Resources" for a more complete description of this acquisition.

Fiscal Year ended December 31, 2005 Compared to the Fiscal Year Ended December 31, 2004

Satellite Communications
Satellite Communications' revenues increased by $417,000 to $1,132,000 for the year ended December 31, 2005 compared to $715,000 for the year ended December 31, 2004. The operating margin from Satellite Communications improved by $314,000 to a positive contribution of $308,000 for the year ended December 31, 2005 compared to a loss of $6,000 for the year ended December 31, 2004. As this segment of our business grows, it becomes more efficient and realizes economies of scale.

As hardware is sold, we recognize the revenue in the period it is delivered to the customer. We bill some of our bandwidth contracts in advance, but recognize revenue over the period benefited. At December 31, 2005, there was $131,000 reflected in the balance sheet as deferred revenue relating to Satellite Communication Services.

Down-hole Solutions
Down-hole Solutions' revenues decreased by $712,000 to $27,000 for the year ended December 31, 2005 compared to $739,000 for the year ended December 31, 2004. The operating margin from Down-hole Solutions deteriorated by $337,000 to a loss of $466,000 for the year ended December 31, 2005 compared to a loss of $129,000 for the year ended December 31, 2004. We have been in technology development mode following mixed results using the Landers technology and therefore have been unable to generate a profit during either year.

Effective as of October 27, 2004, we entered into a licensing agreement to develop a new generation of lateral drilling technology using the AFJ process; such license was converted to a 20% equity ownership in the IP in August 2005, which was subsequently increased to 50% in March 2006. In the short term, the development activity will decrease lateral drilling revenues until such time as the new technology rigs are deployed into commercial operations.

Selling, General and Administrative Expense
Selling, general and administrative ("SG&A") expense decreased by $1.9 million to $2.8 million for the year ended December 31, 2005 compared to $4.7 million for the year ended December 31, 2004. The following table details the major components of SG&A expense over the periods.

In thousands	2005	2004	Increase (Decrease)
Payroll and related costs	$ 627	$ 774	$ (147)
Option and warrant expense	100	747	(647)
License fee	-	735	(735)
Legal fees and settlements	1,336	719	617
External services	413	568	(155)
Insurance	183	447	(264)
Liquidated damages	-	500	(500)

Travel & entertainment	69	140	(71)
Office rent	31	67	(36)
Communications	15	56	(41)
Miscellaneous	73	-	73
	$ 2,847	$ 4,753	$ (1,906)

The decrease in option and warrant expense can be attributed to the fact that in 2005, we started issuing options at market price and therefore recognized no expense under our accounting policy (see Financial Note 13). The 2004 license fee is related to the lateral drilling license and note payable with Carl Landers. We issued 300,000 shares of common stock with a value of $1.9 million to reduce the note balance by $1.2 million and recorded expense of $0.7 million. Legal fees and settlement costs continue to increase due to the level of legal activity we have experienced over the last three years, including a Note we incurred to settle the dispute with a previous CEO. Our external services have decreased due to the fact we were in construction and development versus operating mode in Down-hole Solutions in 2005. The decrease in the cost of insurance was primarily attributable to the decrease in the directors and officers' liability policy premium due to lower legal exposure and the lower level of operating exposure. The 2004 liquidated damages relate to our delay in registering shares that we sold (see Financial Note 12).

Depreciation and Amortization
Depreciation and amortization expense decreased by $82,000 to $431,000 for the year ended December 31, 2005 compared to $513,000 for the year ended December 31, 2004. The decrease in depreciation was due to the partial year depreciation of the rigs in 2005 including the transfer of one rig in early 2005 and the transfer of the remaining rigs in the fourth quarter of 2005. Amortization was reduced by the asset impairment as of December 31, 2004.

Asset Impairment Expense
We charged $3,175,000 to impairment expense at December 31, 2004 to recognize the difference in the carrying value and the market price when we entered into the sale of the Landers license to Maxim for $1.3 million. No impairment charge was recorded for the year ended December 31, 2005.

Other Income
We recognized $561,000 of other income in 2005 primarily from the receipt of late payment fees associated with the sale of the Landers license. No other income or expense was recorded in 2004.

Gain or Loss on Sale of Property
In 2005, we had a net loss from the sale and or disposition of the non-abrasive drilling equipment in the normal course of business of $93,000. In 2004, we recognized a loss of only $11,000.

Interest Expense
Interest expense increased by $90,000 to $195,000 for the year ended December 31, 2005 compared to $105,000 for the year ended December 31, 2004. The increase in interest expense can be attributed to an average debt outstanding for the year ended December 31, 2005 of approximately $1.1 million compared to average debt outstanding of approximately $0.7 million for the year ended December 31, 2004.

Net Loss
The net loss for the year ended December 31, 2005 decreased to $2.9 million from $8.8 million for the year ended December 31, 2004. The $5.9 million decrease is attributable to the major items explained above. The tax benefit associated with our loss has been fully reserved as we have recurring net losses and it is more likely than not that tax benefits will not be realized.

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Satellite Communications Services

Satellite Communication Services' revenues increased by $29,000 to $265,000 for the quarter ended June 30, 2006 compared to $236,000 for the quarter ended June 30, 2005. The increase in revenue can be attributed to an increase in service provided to existing customers. The operating margin from Satellite Communication Services increased by $58,000 to a loss of $(33,000) for the quarter ended June 30, 2006 compared to a margin of $25,000 for the quarter ended June 30, 2005. As this segment of our business grows, it benefits from economies of scale.

As hardware is sold, we recognize the revenue in the period it is delivered to the customer. There were no significant hardware sales during the quarters ended June 30, 2006 and 2005. We bill some of our bandwidth contracts in advance, but recognize the revenue over the period benefited.

Down-hole Solutions

We have been striving to develop a commercially viable lateral drilling technology with the potential to penetrate through well casing and into reservoir formations to stimulate oil and gas production. In 2003, with the acquisition of exclusive rights to a proprietary horizontal drilling process we began to deploy lateral drilling services in the field. In mid 2004, it became apparent that this process was limited in its application to a wide variety of oil and gas formations. After redesigning and improving the existing process and designing and testing some new capabilities, we now believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells. The goal is to make this new service reliably predictable and consistently dependable for our customers. We have completed repairs and are currently deploying our first new generation lateral drilling rig with the capability of abrasive fluid jetting by use of much higher hydraulic horsepower. Following favorable results and customer acceptance of this initial rig's capabilities, we plan to order the construction of additional rigs and significantly grow the deployment of our abrasive jetting service.

In July 2006 Blast returned to the location of its first field test using its new abrasive fluid jetting (AFJ) technology on a well for Oracle Operating located in Many, Louisiana. With repairs to the coil tubing unit completed, the Blast Rig #1 has resumed operations that include demonstrating the ability to cut through the steel well casing at approximately 3,000 feet of vertical depth and attempting to jet large bore perforations though the window cut in the casing.

While on this location, the Blast Rig #1 has again successfully demonstrated the ability to cut a large (3 x 3 inch) window into the steel well casing using AFJ from within the well-bore - a unique attribute in the energy business. Additionally, the Company now believes that this cutting process perforated approximately three feet into the rock formation beyond the casing wall. This large bore perforation service adds to the rig's existing well service capabilities, which include specialty casing cutting and normal coiled tubing well services.

While attempting to jet laterally into the formation there were indications that the formation-cutting nozzles were eroding and that higher strength material would be needed. Replacement nozzles composed of higher strength carbide have been ordered. In the meantime, Blast will take the opportunity to replace some of the down-hole equipment that may have been damaged during a jetting attempt. It is expected to take about a week to secure a work-over rig to return to the location and switch out the down hole equipment. Once this is completed and the replacement nozzles are delivered, further lateral jetting operations are planned.

Funding for developing this abrasive cutting capability into commercial operation is expected to come from future capital commitments. No assurances can be given that such capital will be available or adequate. If this is the case, we will be required to obtain additional capital from equity markets. No assurances can be given that such capital will be available or that the terms will be acceptable.

Down-hole Solutions' revenues were $14,000 for the quarter ended June 30, 2006 compared to $4,000 for the quarter ended June 30, 2005. The revenue in 2006 was related to the initial deployment of the AFJ rig to Many, Louisiana for Oracle Operating compared with the revenue in 2005 which was generated from the direct financing lease of one of our Lander's rigs.

The operating margin from Down-hole Solutions decreased by $172,000 to a loss of ($286,000) for the quarter ended June 30, 2006 compared to a loss of ($114,000) for the quarter ended June 30, 2005. The expenses for both periods were primarily labor related associated with designing and testing the new abrasive fluid jetting process.

Selling, General and Administrative

Selling, general and administrative expenses increased by $107,000 to $594,000 for the quarter ended June 30, 2006 compared to $487,000 for the quarter ended June 30, 2005. The following table details major components of expense over the periods.

	For the Three Months Ended June 30,		**Increase**
	2006	**2005**	**(Decrease)**
Payroll and related costs	$ 191	$ 142	$ 49
Option and warrant expense	80	25	55
Legal & settlement costs	66	124	(59)
External services	109	90	19

Insurance	90	50	40
Travel & entertainment	41	12	29
Office rent, communications, misc.	17	44	(27)
	$ 594	$ 487	$ 107

During the quarter we continued to focus on technology development and lowering our controllable overhead, which has resulted in a slight increase in expenses compared to the second quarter of 2005.

Net Loss

The net loss for the second quarter of 2006 increased to $1,009,000 from a loss of $643,000 for the corresponding period in 2005. The increase is primarily attributable to the costs associated with deploying the new AFJ rig. The tax benefit associated with our loss has been fully reserved as we have recurring net losses and it is more likely than not that the tax benefits will not be realized.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Satellite Communications Services

Satellite Communication Services' revenues increased by $48,000 to $557,000 for the six months ended June 30, 2006 compared to $509,000 for the six months ended June 30, 2005. The increase in revenue can be attributed to an increase in service provided to existing customers. The operating margin from Satellite Communication Services decreased by $70,000 to a margin of $54,000 for the six months ended June 30, 2006 compared to a margin of $124,000 for the six months ended June 30, 2005.

As hardware is sold, we recognize the revenue in the period it is delivered to the customer. There were no significant hardware sales during the quarters ended June 30, 2006 and 2005. We bill some of our bandwidth contracts in advance, but recognize the revenue over the period benefited.

Down-hole Solutions

Down-hole Solutions' revenues were $14,000 for the six months ended June 30, 2006 compared to $19,000 for the six months ended June 30, 2005. The revenue in 2006 was related to the initial deployment of the AFJ rig to Many, Louisiana for Oracle Operating compared with the revenue in 2005 which was generated from the direct financing lease of one of our Lander's rigs.

The operating margin from Down-hole Solutions decreased by $200,000 to a loss of ($419,000) for the six months ended June 30, 2006 compared to a loss of ($219,000) for the six months ended June 30, 2005. The expenses for both periods were primarily labor related associated with designing and testing the new abrasive fluid jetting process.

Selling, General and Administrative

Selling, general and administrative expenses decreased by $216,000 to $1,306,000 for the six months ended June 30, 2006 compared to $1,522,000 for the six months ended June 30, 2005. The following table details major components of expense over the periods.

	For the Six Months Ended June 30,		**Increase**
	2006	**2005**	**(Decrease)**
Payroll and related costs	$ 296	$ 426	$ (130)
Option and warrant expense	173	50	123
Legal & settlement costs	136	685	(549)

External services	424	191	233
Insurance	144	92	52
Travel & entertainment	88	18	70
Office rent, communications, misc.	45	60	(15)
	$ 1,306	$ 1,522	$ (216)

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Due to the lack of drilling activity during the six months quarter of 2006, we focused on technology development and lowering our controllable overhead, which has resulted in a decrease in payroll. Conversely, external services and travel and entertainment all increased. Legal and settlement expenses decreased significantly as the prior year's period included $503,000 for the value of the 1,150,000 shares of our common stock to be issued to settle the class action lawsuit and $55,000 of associated expenses.

Net Loss

The net loss for the first six months of 2006 decreased to $1,724,000 from a loss of $1,772,000 for the corresponding period in 2005. This decrease is primarily attributable to increased rig deployment costs offset by the reductions in overhead expenses. The tax benefit associated with our loss has been fully reserved as we have recurring net losses and it is more likely than not that the tax benefits will not be realized.

Liquidity and Capital Resources

As of June 30, 2006, our cash balance was $223,000 compared to a cash balance of $836,000 at December 31, 2005 and $79,000 for the period ended June 30, 2005. The cash balances were impacted by the sale in 2005 of the Landers license for a total of $1.8 million and 2005 stock sales of $780,000 that were utilized to pay debt and fund operations. We continue to utilize cash, stock, and notes to fund operations. We have used these proceeds to fund the construction of our new generation drilling rig. As of June 30, 2006, we had expended approximately $1.2 million to construct and outfit the AFJ tractor/trailer rig as well as support truck and trailers. As of October 10, 2006, our cash balance was $3.8 million as a result of the Eagle acquisition funding.

In addition to the senior debt mentioned above, we have a $42,500 note that is due on demand and a $500,000 note due on June 30, 2007. Convertible notes with related parties for $200,000 matured on May 31, 2006 and were converted into common stock in June 2006.

Our future liquidity will be significantly affected by our obligations to the holder of our senior indebtedness incurred to finance the acquisition of Eagle. As previously disclosed, the senior debt has an original principal amount of $40.6 million, with a final maturity in three years, with interest accruing at prime plus 2.5%, with a minimum rate of 9%, payable monthly. The principal is to be repaid commencing on April 11, 2007 at the rate of $800,000 per month for the first twelve months after that date, $900,000 per month for the subsequent twelve months, and $1,000,000 per month until the note matures. The remaining balance of the note is to be repaid at maturity, plus accrued interest.

As part of the Eagle acquisition, we entered into a consulting agreement with Second Bridge LLC for the completion of a sixth rig. This contract calls for an estimated payment of $2.4 million to vendors for parts and labor, and the issuance of 900,000 shares of Blast common stock to Second Bridge. This rig is estimated to be completed in early 2007. In addition, Blast entered into a consulting contract with Second Bridge for a period of three years at the rate of $150,000 per month to provide such services as agreed between the parties, including operational, construction, and business development advisory services.

The Company is also subject to certain contingent liabilities relating to litigation matters, including the disputes with Hallwood Petroleum ("Hallwood") and Quicksilver Resources ("Quicksilver") and the pending court approval of our SEC settlement. An adverse determination in any of these matters could have a material adverse effect on the Company.

Our continued operating losses raise substantial doubt as to our ability to continue as a going concern. We are in an early stage of development, have just completed a major acquisition, are highly leveraged, and are rapidly depleting our cash resources, therefore we have determined that we may need to raise additional financing in the short term to continue in operation and fund future growth. We currently plan to raise additional financing if we are not able to

generate cash flow from operations in the near term. The use of stock for currency in financing or making acquisitions has been negatively impacted while we have been under SEC investigation (see Financial Note 16 to the December 31, 2005 Financial Statements). If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

For the three and six months ended June 30, 2006 we had capital expenditures of $62,000 and $130,000, respectively as compared to capital expenditures of $340,000 and 590,000 for the three and six months ended June 30, 2005. Substantially all of the above expenditures were attributable to the Company's AFJ technology.

Certain Relationships and Related Transactions

Thornton related entities
As part of the acquisition of Eagle Domestic Drilling Operations LLC, the selling members agreed to purchase 15 million Blast common shares at $1.00 per share and 5 million two year warrants with an exercise price of $0.01 per share with registration rights. The largest component of the private placement was purchased by the Thornton Business Security Trust, a trust whose beneficiaries are Rodney D. Thornton and his spouse. Thornton Business Security Trust beneficially owns 16,447,500 shares of our common stock and has become our largest shareholder. We also entered into a three year Consulting Agreement for transition and strategic services with Second Bridge LLC, an entity controlled by Rodney D. Thornton, at a rate of $150,000 per month. We also entered into a short term Consulting Agreement with Second Bridge LLC to advise in construction of Rig 17 in exchange for 900,000 common shares of Blast. Lastly, we entered into two lease agreements with Adkins Hill Properties LLC, also controlled by Rodney D. Thornton, to use the Adkins Fabrication yard at a rate of $7,500 per month for three years plus an additional six month lease for temporary space also at $7,500 per month. For additional information on these transactions see "Business of Issuer - Acquisition of Contract Land Drilling Business."

Berg McAfee Companies
In addition to the transactions involving Energy 2000 and NGS, we have had additional transactions with Berg McAfee.

In December 2005, a commission fee (5% cash) was earned for a private placement brokered by Chadbourn Securities. Chadbourn Securities is controlled by Eric McAfee, partner in Berg McAfee Companies.

In December 2004, Berg McAfee purchased 400,000 shares of our common stock at a price of $0.50 per share in a private transaction valued at $200,000 with two year warrants attached to purchase 400,000 shares of our common stock at a price of $1.00 per share. The proceeds from that transaction were used for general corporate purposes.

In October 2004, Berg McAfee loaned us $100,000 under the terms of a convertible promissory note bearing interest at 8% and maturing May 31, 2006. In connection with the note, we issued warrants to purchase 50,000 shares of common stock at $2.00 per share during the term of the note to Berg McAfee. In May 2006, Berg McAfee agreed to convert their note principal amount due on May 31, 2006 into shares of Company stock in lieu of cash payment. The original conversion terms including warrants, but excluding 8% interest, would equate to a $1.00 per share investment value. The conversion includes a premium in the number of shares converted in order to lower the value of the holder's investment to $.60 per share, which is the same price offered to note holders who converted their notes in December 2005. Blast issued 50,000 shares of common stock related to the conversion of the $100,000 note at a conversion price of $2.00 per share and 66,667 shares of common stock related to the premium on the conversion.

On July 15, 2005, Blast entered into an agreement to develop its initial abrasive jetting rig with Berg McAfee Companies, LLC ("BMC"), a major shareholder. The arrangement involves two loans for a total of $1 million to fund the completion of the initial rig and sharing in the expected rig revenues for a ten-year period. Under the terms of the loan agreement with BMC, cash revenues will be shared on the basis of allocating 90 percent to Blast and 10 percent to BMC for a ten-year period following repayment. After ten years, Blast will receive all of the revenue from the rig. The loan, secured by the rig, has a senior and subordinated structure, carries an average interest rate of 7.4 %, and is due June 30, 2006. BMC also has the option to fund an additional three rigs under these commercial terms. In February 2006, BMC mutually agreed to extend the Maturity Date of the AFJ Rig Loans from September 2006 to March 31, 2007. No additional consideration was paid by the Company to BMC for the extension. BMC will be entitled to receive the additional interest which accrues during the extended loan period.

Eric McAfee

In addition to the transactions involving Energy 2000, NGS and Berg McAfee, we had the following transactions with Eric McAfee.

On January 19, 2005, we entered into a settlement agreement and mutual release with Eric McAfee, Edge Capital Group, Inc. ("Edge") and certain entities affiliated with Robert Frazier, Sr. As part of the settlement, Mr. McAfee paid us $625,000 and gave us 300,000 shares of NGS common stock in exchange for 500,000 shares of our common stock. The 300,000 shares of NGS common stock was collateral for a $375,000 required payment to us. That payment was made in April 2005, and the NGS shares were released. The $625,000 in cash was then distributed to Edge along with 750,000 shares of our common stock. At the closing of the settlement agreement, the parties executed a mutual release and dismissed all pending claims and litigation between them.

In October 2004, Mr. McAfee loaned us $100,000 under the terms of a convertible promissory note bearing interest at 8% and maturing May 31, 2006. In connection with the note, we issued warrants to purchase 50,000 shares of common stock at $2.00 per share during the term of the note to Mr. McAfee. In May 2006, Eric McAfee agreed to convert their note principal amount due on May 31, 2006 into shares of Company stock in lieu of cash payment. The original conversion terms including warrants, but excluding 8% interest, would equate to a $1.00 per share investment value. The conversion includes a premium in the number of shares converted in order to lower the value of the holder's investment to $.60 per share, which is the same price offered to note holders who converted their notes in December 2005. Blast issued 50,000 shares of common stock related to the conversion of the $100,000 note at a conversion price of $2.00 per share and 66,667 shares of common stock related to the premium on the conversion.

We had a consulting agreement with Mr. McAfee for $10,000 per month through April 30, 2005, with $120,000 due during 2004 and $40,000 in 2005. This agreement was cancelled upon his resignation as a director.

Energy 2000 NGC, Inc. and Natural Gas Systems, Inc.
Energy 2000 NGC, Inc. ("Energy 2000") is a subsidiary of Berg McAfee Energy, LLC, which is a wholly owned subsidiary of Berg McAfee Companies ("Berg McAfee"). Berg McAfee has a 24% beneficial interest in us. Natural Gas Systems, Inc. ("NGS") is an independent company with substantial shareholdings owned by Eric McAfee, a partner and the managing member of Berg McAfee Companies and one of our former directors. Energy 2000 and NGS are beneficially owned 80% and 23% respectively by Berg McAfee or Eric McAfee personally.

We billed $666,250 and $153,960 to Energy 2000 and NGS, respectively, for lateral drilling services performed in 2003. We received $397,500 and $130,000, respectively. However, for Energy 2000 we had inadequate documentation to substantiate whether some of the services were performed. For Energy 2000, we were able to substantiate $328,750 of revenue leaving $68,750 in deferred revenue. We billed $20,457 and $2,000 to Energy 2000 and NGS, respectively, for expenses incurred in 2004. The amount billed to Energy 2000 was deemed uncollectible and the amount billed to NGS was collected. In October 2004, we entered into an agreement with Berg McAfee Companies, Energy 2000 and Eric McAfee to settle several outstanding legal issues. Under the agreement, we are entitled to retain the $68,750 and Energy 2000 has waived all claims to the funds.

In April 2003, we signed a drilling service contract with Energy 2000 NGC, Inc., whereby Energy 2000 would have paid us a minimum of $1,800,000 for the lateral drilling of 45 wells. In September, 2003 we entered into another contract with Energy 2000 for an additional 57 wells with terms similar to the original contract. These contracts have been suspended for lack of payment.

Lateral drilling services for these two customers ceased in December 2003 because of a change in our management.

Richard D. Thornton
Blast hired Richard D. Thornton, a selling member of Eagle Domestic Drilling Operations and a participant in the private placement described above, as Vice President of Operations and entered into an Employment Agreement with him where he received a salary of $150,000 per year and 1.5 million Blast stock options which vest quarterly over three years and have an exercise price of $1.30 per share with a ten year term.

Directors and Officers
In August 2006, we granted 1.5 million options of our common stock to Richard Thornton. The options have a ten year term and are exercisable at $1.30 per share, the market price at the date of grant. The options vest quarterly over three years.

In May 2006, we granted options to purchase 12,000 shares of our common stock to the following directors: John A. Block, Scott W. Johnson, Robert P. Herbert, Joseph J. Penbera, Jeffery Pendergraft and Frederick R. Ruiz. We also granted options to purchase 24,000 shares of our common stock to O. James Woodward III, Chairman of the Board.

The options have a ten-year term and are exercisable at $0.61 per share, the market price at the date of grant. The options vest quarterly over 12 months.

In June 2005, we granted options to purchase 12,000 shares of our common stock to the following directors: John A. Block, Robert P. Herbert, Joseph J. Penbera and Frederick R. Ruiz. We also granted options to purchase 24,000 shares of our common stock to O. James Woodward III, Chairman of the Board. The options have a ten-year term and are exercisable at $0.38 per share, the market price at the date of grant. The options vest quarterly over 12 months.

In March 2005, the Board of Directors awarded to certain employees and officers a total of 560,000 shares of company stock as a bonus payment in lieu of cash for 2004 performance. These shares were issued in September 2005.

In July 2004, we granted options to purchase 350,000 shares of our common stock to David M. Adams and options to purchase 420,000 shares of our common stock to John O'Keefe. Mr. Adams is our president and Co-CEO, while Mr. O'Keefe is our Co-CEO and CFO. The options have a ten year term and are exercisable at $0.90 per share, the market price at date of grant. The options vest quarterly over three years.

In May 2004, we granted options to purchase 12,000 shares of our common stock to the following directors; John R. Block, Joseph J. Penbera, Frederick R. Ruiz and Ronald J. Robinson. We also granted options to purchase 24,000 shares of our common stock to O. James Woodward III, Chairman of the Board. The options have a ten year term and are exercisable at $2.20 per share, the market price at date of grant. The options vest quarterly over one year.

In May 2004, Messrs. Adams, O'Keefe, Penbera and Ruiz loaned $25,000 to us, while Mr. Block loaned $10,000. The notes bear interest at 8% and mature on May 14, 2005. In connection with the notes we issued warrants to purchase 5,000 shares of common stock to Messrs. Adams, O'Keefe, Penbera and Ruiz and warrants to purchase 2,000 shares of common stock to Mr. Block. The warrants are exercisable at $2.00 per share. The notes were exchanged into 80,000 shares of common stock for each $25,000 of loan principal in May 2005.

In January 2004, we granted options to purchase 150,000 shares of our common stock to Mr. Adams and options to purchase 80,000 shares of our common stock to Mr. O'Keefe. We also granted options to purchase 20,000 shares of our common stock to the following directors; Messrs. Block, Penbera, Ruiz and Woodward. The options have a ten year term and are exercisable at $4.28 per share, the market price at date of grant. The options granted to the officers vest quarterly over one year, while the options granted to the directors vested immediately.

In January 2004, we entered into an employment agreement with Mr. O'Keefe to serve as CFO. The agreement stipulates compensation of $175,000 in year one, $195,000 in year two and $215,000 in year three. The salary has since been amended to a base of $200,000. The agreement renews annually.

In January 2004, we entered into an employment agreement with Mr. Adams to serve as CEO. The agreement provides for a base salary of not less than $185,000. The salary has since been amended to a base of $200,000. The agreement renews annually.

Market for Common Equity and Related Stockholder Matters

The common stock of Blast Energy Services, formerly known as Verdisys, Inc., commenced trading on the OTC Bulletin Board on July 18, 2003 under the symbol "VDYS." Effective June 6, 2005, the symbol for our stock became "BESV." The following table sets forth, for the periods indicated, the high and low bid prices of a share of our common stock as reported on the OTC Bulletin Board since active trading began on May 2, 2003. The quotations provided are for the over the counter market which reflect interdealer prices without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	HIGH	**LOW**
2004		
First Quarter	$ 9.54	$ 3.35
Second Quarter	$ 4.75	$ 1.50
Third Quarter	$ 1.95	$ 0.25
Fourth Quarter	$ 1.00	$ 0.40

2005		
First Quarter	$ 0.59	$ 0.35
Second Quarter	$ 0.52	$ 0.30
Third Quarter	$ 0.61	$ 0.31
Fourth Quarter	$ 1.08	$ 0.34
2006		
First Quarter	$ 1.59	$ 0.71
Second Quarter	$ 1.10	$ 0.44
Third Quarter	$ 1.56	$ 0.88

Holders

As of October 20, 2006, we had 66,722,904 shares of common stock issued and outstanding held by approximately 410 shareholders of record, including 1,150,000 shares approved for issue under the class action settlement.

Dividends

We have never paid cash dividends. At present, we do not anticipate paying any dividends on our common stock in the foreseeable future. Further, our debt agreements prohibit us from paying any cash dividends.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
	(a)	(b)	(c)
Equity compensation plans approved by security holders	6,034,792	$0.90	1,965,208

Executive Compensation

Compensation of Executive Officers

Other than Mr. Adams, and Mr. O'Keefe, we have no other person that is a named executive officer as of December 31, 2005.

Compensation Summary

The following table provides certain summary information concerning compensation for the last three fiscal years earned by or paid to our CEOs and each of our other executive officers who had compensation in excess of $100,000 during the last fiscal year (collectively the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		Annual Compensation			**Award(s)**		**Payouts**	
Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Restricted Stock Award(s) ($)**	**Securities Underlying Options/SARs (#)**	**LTIP Payouts ($)**	**All Other Compensation ($)**
David M. Adams	2005	200,000(1)	70,000(3)	0	0	400,000	0	0
President, Co-CEO	2004	181,146(2)	50,000	0	0	500,000	0	0
	2003	0	0	0	0	0	0	0
John O'Keefe	2005	200,000(1)	70,000(3)	0	0	400,000	0	0
EVP, Co-CEO, CFO	2004	172,500(2)	40,000	0	0	500,000	0	0

2003	0	0	0	0	0	0	0

During the periods indicated, perquisites for each individual named in the Summary Compensation Table aggregated less than 10% of the total annual salary and bonus reported for such individual in the Summary Compensation Table. Accordingly, no such amounts are included in the Summary Compensation Table.

(1) Includes $15,000 deferred by each officer into 2006.
(2) Includes $30,833 and $29,167 for Mr. Adams and Mr. O'Keefe, respectively, deferred from 2004 and paid in 2005 in shares of common stock with a value of $0.50 per share.
(3) Paid in 200,000 shares of common stock valued at $0.35 per share.

Option Grants

The following table provides certain information with respect to options granted to our Named Executive Officers named in the Summary Compensation Table during the fiscal year ended December 31, 2005 under our stock option plan:

OPTION GRANTS IN 2005

Name	Number of Securities Underlying Options Granted	Percent of Total Granted to Employees in Fiscal Year	Exercise Price	Market Price on Date of Grant	Expiration Date
David M Adams	400,000	17%	$ 0.80	$ 0.79	12/31/2015
John O'Keefe	400,000	17%	$ 0.80	$ 0.79	12/31/2015

Option Exercises and Values

The following table sets forth the information concerning option exercises and the value of unexercised options held by our Named Executive Officers named in the Summary Compensation Table as of the end of the last fiscal year.

AGGREGATED OPTION EXERCISES IN 2005
AND OPTION VALUES AT DECEMBER 31, 2005

	Shares Acquired on	Value	Number of Securities Underlying Unexercised Options Held at December 31, 2005		Value of Unexercised In The Money Options Held at December 31, 2005	
Name	Exercise	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
David M. Adams	None	-	365,000	535,000	$ 0	$ 0
John O'Keefe	None	-	330,000	570,000	$ 0	$ 0

Note: Value of Unexercised In-The-Money Options Held at December 31, 2005 computed based on the difference between aggregate fair market value and aggregate exercise price. The fair market value of our common stock on December 31, 2005 was $0.79, based on the closing price on the OTC Bulletin Board.

Compensation of Directors

We pay our directors fees for attendance at board and other committee meetings in the form of cash compensation or similar remuneration, and reimburse them for any out-of-pocket expenses incurred by them in connection with our business.

Currently, each independent director earns compensation of $1,000 per month with an additional $1,000 per month for chairing a committee with the exception of the audit committee chair who earns an additional $2,000 per month and the chairman of the board who earns an additional $3,000 per month. Meeting fees are earned at a rate of $1,000 per

day for regularly scheduled Board meetings and $500 per day for committee meetings. Currently, only the Chairman of the Board is receiving cash payments toward fees earned. Additionally, the Chairman receives options to purchase 24,000 shares of our common stock per year and all other independent directors receive options to purchase 12,000 shares per year.

Employment Agreements

David M. Adams

In January 2004, we entered into an employment agreement with David Adams. The term of the agreement is for one year, and it may be renewed at the pleasure of both parties. Pursuant to the agreement, Mr. Adams serves as our President and COO in exchange for a base salary of $185,000 per year. This base salary has since been amended to $200,000 per year. Mr. Adams also received an option to purchase 150,000 shares of common stock to vest quarterly over the initial term of the employment agreement. Mr. Adams also received a signing bonus in the amount of $50,000 on the effective date of the employment agreement, and is entitled to participate in our annual incentive compensation program with a potential bonus being up to fifty percent of his base salary.

John O'Keefe
In January 2004, we entered into an employment agreement with John O'Keefe. The term of the agreement is for one year, and it may be renewed at the pleasure of both parties. Pursuant to the agreement, Mr. O'Keefe serves in the position of Executive Vice President and CFO in exchange for a base annual salary of $175,000 for the first twelve months of his employment, $195,000 for the second year of employment and $215,000 for the third year of employment. This base salary has since been amended to $200,000 per year. Mr. O'Keefe also received an option to purchase 80,000 shares of common stock to vest quarterly over the initial term of the employment agreement. Mr., O'Keefe received a one time payment of $40,000 as a sign-on bonus entitled to participate in our annual compensation program with a potential bonus being up to fifty percent of his base salary.

Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act with respect to the shares of our common stock offered by this prospectus. This prospectus does not contain all the information set forth in the registration statement and the exhibits and schedules thereto. For further information about us and shares of our common stock, we refer you to the registration statement and to the exhibits and schedules filed with it. Statements contained in this prospectus as to the contents of any contract or other documents are not necessarily complete. We refer you to those copies of contracts or other documents that have been filed as exhibits to the registration statement, and statements relating to such documents are qualified in all aspects by such reference.

We are subject to the information requirements of the Exchange Act of 1934, as amended ("Exchange Act"); therefore, we file reports and other information with the SEC. You can inspect and copy the reports and other information that we file at the public reference facilities maintained by the SEC at the Public Reference Room, Headquarters Office, 100 F Street, N.E., Room 1580, Washington, D.C., 20549. Please call the SEC at 1800-SEC-0330 for further information on the Public Reference Rooms. The SEC also makes electronic filings publicly available on its web site at www.sec.gov.

Our common stock is traded on the OTC Bulletin Board under the symbol "BESV.OB." Certain information and reports of ours are also available for inspection at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, Washington, D.C. 20006.

Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Blast Energy Services, Inc.
Houston, Texas

We have audited the accompanying balance sheet of Blast Energy Services, Inc. as of December 31, 2005 and the related statements of operations, stockholders' deficit and cash flows for each of the two years then ended. These financial statements are the responsibility of Blast Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blast Energy Services, Inc. as of December 31, 2005 and the results of its operations and cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Blast will continue as a going concern. As discussed in Note 2 to the financial statements, Blast suffered recurring losses from operations and has a working capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 20, the accompanying statement of cash flows for the year ended December 31, 2005 has been restated to properly classify the cash received from the sale of the Landers License.

MALONE & BAILEY, PC

www.malone-bailey.com

Houston, Texas

March 22, 2006 (May 8, 2006 as to the effects of the restatement as described in Note 20)

BLAST ENERGY SERVICES, INC.
BALANCE SHEET
December 31, 2005

Assets		
Current Assets		
Cash	$	835,978
Accounts Receivable, net of allowance for doubtful accounts of $10,290		156,437
Other Assets		231,413
Current Assets		1,223,828
Intangible assets, net of $27,857 of accumulated amortization		1,142,143
Property & equipment, net of $22,416 of accumulated depreciation		977,269
Total Assets		3,343,240
Liabilities and Stockholder's Deficit		
Current Liabilities		
Accounts payable	$	622,396
Accrued expenses		533,842
Deferred revenue		131,425
Notes payable-related parties, net of unamortized discount of $14,814		185,186
Notes payable-other		395,000
Total Current Liabilities		1,867,849
Long Term Liabilities		
Advances-related parties		1,000,000
Note payable-other		500,000
Deferred revenue, less current portion		6,780
Total Liabilities		3,374,629
Commitments and Contingencies		-
Stockholders' Deficit		
Common stock, $.001 par value, 100,000,000 shares authorized, 42,060,477 shares issued and outstanding		42,060
Additional paid in capital		29,855,409
Accumulated deficit		(29,928,859)
Total Stockholders' Deficit		(31,390)
Total Liabilities and Stockholders' Deficit	$	3,343,240

See accompanying summary accounting polices and notes to financial statements

BLAST ENERGY SERVICES, INC.
STATEMENTS OF OPERATIONS
Years ended December 31, 2005 and 2004

		2005		2004
Revenue:				
Satellite Communications	$	1,131,967	$	714,634
Down-hole Solutions		27,491		738,710
Total Revenue		1,159,458		1,453,344
Cost of Services Provided:				
Satellite Communications		824,505		720,912
Down-hole Solutions		493,209		868,160
Total Cost of Services Provided		1,317,714		1,589,072
Gross Margin (Deficit)		(158,256)		(135,728)
Operating Expenses:				
Selling, general and administrative		2,847,212		4,752,391
Depreciation and amortization		119,306		512,706
Bad debts		10,000		73,249
Asset impairment		-		3,175,833
Operating loss		(3,134,774)		(8,649,907)
Other (Income) Expense		(560,912)		-
Interest expense		195,121		105,053
(Gain) loss on sale of equipment		93,247		11,237
Interest income		(4)		(89)
Total other (income) expense		(272,548)		116,201
Net Loss	$	(2,862,231,)	$	(8,766,108)
Basic and diluted loss per share	$	(0.08)	$	(0.28)
Weighted average shares outstanding		37,480,228		31,415,041

See accompanying summary accounting polices and notes to financial statements

BLAST ENERGY SERVICES, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT
Years Ended December 31, 2005 and 2004

	Preferred Stock		Common Stock	
	Shares	**Amount**	**Shares**	**Amount**
Balances at December 31, 2003			29,627,265	$ 29,627
Shares issued for:				
Cash, net of fundraising costs			829,500	830
Services			47,950	48
Accounts payable			104,000	104
Notes payable, accrued interest & licensing fees			300,000	300
Cash exercise of warrants and options			1,207,198	1,207
Prior fundraising agreement			277,778	278
Lawsuits settlements			1,050,000	1,050
Fair value of options and warrants issued for services				
Net loss				
Balances at December 31, 2004	-	-	33,443,691	33,444
Shares issued for:				
Cash, net of fundraising costs			900,000	900
Services			673,903	674
Technology acquisition			3,000,000	3,000
Cash exercise of warrants and options			675,000	675
Prior fundraising agreement			448,800	449
Notes payable, accrued interest and salaries			1,185,750	1,185
Lawsuit settlements			1,733,333	1,733
Option expense				
Warrant expense				
Net loss				
Balances at December 31, 2005	-	-	42,060,477	$ 42,060

See accompanying summary accounting polices and notes to financial statements

BLAST ENERGY SERVICES, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT (Continued)
Years Ended December 31, 2005 and 2004

	Paid-In Capital	Retained Deficit	Totals
Balances at December 31, 2003	21,743,321	(18,300,519)	3,472,429
Shares issued for:			
Cash, net of fundraising costs	633,170		634,000
Services	(48)		-
Accounts payable	51,873		51,977
Notes payable, accrued interest & licensing fees	1,919,700		1,920,000
Cash exercise of warrants and options	80,010		81,217
Prior fundraising agreement	(278)		-
Lawsuits settlements	836,950		838,000
Fair value of options and warrants issued for services	735,421		735,421
Net loss		(8,766,108)	(8,766,108)
Balances at December 31, 2004	26,000,119	(27,066,627)	(1,033,063)
Shares issued for:			
Cash, net of fundraising costs	539,100		540,000
Services	309,385		310,059
Technology acquisition	1,167,000		1,170,000
Cash exercise of warrants and options	74,725		75,400
Prior fundraising agreement	216,051		216,500
Notes payable, accrued interest and salaries	468,593		469,778
Lawsuit settlements	711,767		713,500
Option expense	100,000		100,000
Warrant expense	268,669		268,669
Net loss		(2,862,233)	(2,862,233)
Balances at December 31, 2005	29,855,409	$ (29,928,858)	$ (31,390)

See accompanying summary accounting polices and notes to financial statements

BLAST ENERGY SERVICES, INC.
STATEMENTS OF CASH FLOWS (Restated)
Years Ended December 31, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Net loss	$ (2,862,231)	$ (8,766,108)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services or litigation	1,193,133	1,573,192
Release of deferred revenue from litigation settlement	-	(565,750)
Option and warrant expense	368,669	544,579
Amortization of note discount	117,630	58,398
Depreciation and amortization	119,306	512,706
Guarantee of third party debt	-	(300,000)
Loss (gain) on sale of property	93,247	11,237
Asset impairment charge	-	3,175,833
Note issued for legal settlement	500,000	-
Bad debts	-	73,249
Changes in:		
Other Accounts receivable	27,289	132,131
Other current assets	(187,337)	-
Accounts payable	(91,130)	473,437
Accrued expenses	(670,002)	787,767
Deferred revenue	(198,399)	15,039
Customer deposit	(276,850)	208,568
Net Cash Used In Operating Activities	(1,866,675)	(2,115,722)
Cash Flows From Investing Activities		
Purchase of equipment	(970,298)	(3,705)
Proceeds from sale of license	1,300,000	-
Proceeds from sale of equipment	255,734	12,500
Net Cash Provided By Investing Activities	585,436	8,795
Cash Flows From Financing Activities		
Proceeds from sales of common stock	779,900	634,000
Proceeds from exercise of options and warrants	75,400	81,217
Proceeds from advances by advanced parties	1,000,000	-
Proceeds from notes payable, related parties	-	345,000
Proceeds from notes payable	(5,000)	475,000
Payments on notes payable, related parties	-	(35,000)
Payments on note payable related to license	-	(500,000)
Net Cash Provided By Financing Activities	1,850,300	1,000,217
Net change in cash	569,061	(1,106,710)
Cash at beginning of year	266,917	1,373,627
Cash at end of year	$ 835,978	$ 266,917

Cash paid during the year for:				
Interest	$	83,311	$	-
Income taxes		-		-

See accompanying summary accounting polices and notes to financial statements

BLAST ENERGY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Business. The Company was formed in California on April 7, 1999. The Company entered into a merger agreement with Reconstruction Data Group, Inc. in July 2003, the principal effect of which was to make the company, after the transactions, a publicly traded company. Effective June 6, 2005, the Company changed its name to Blast Energy Services, Inc. ("Blast") from Verdisys, Inc. in part to reflect its focus on the energy service business. Management believes such a name change creates better name recognition related to the types of service that it intends to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company. In June 2003, Blast began selling a lateral drilling technique using high pressure water jetting for the enhancement and production of oil and gas reserves using licensed technology acquired in April 2003.

In 2005 and 2004, Blast provided lateral jetting services through the utilization of its drilling rigs by oil and gas operators primarily in Texas and Louisiana. Blast also provided satellite services to oil and gas companies throughout North America and West Africa.

Management Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

Cash Equivalents. Highly liquid investments with original maturities of three months or less are considered cash equivalents.

Revenue Recognition. All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectibility is reasonably assured. Revenue is derived from sales of satellite hardware, satellite bandwidth, satellite service and lateral drilling services. Revenue from satellite hardware is recognized when the hardware is installed. Revenue from satellite bandwidth is recognized evenly over the term of the contract. Revenue from satellite service is recognized when the services are performed. Blast provides no warranty but sells commercially obtained 3 to 12 month warranties for satellite hardware. Blast has a 30 day return policy. Revenue for lateral drilling services is recognized when the services are performed and collectibility is reasonably assured and when collection is uncertain, revenue is recognized when cash is collected.

Allowance for Doubtful Accounts. Bad debt expense is recognized based on management's estimate of likely losses per year, based on past experience and an estimate of current year uncollectible amounts.

Equipment. Equipment is valued at cost. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the life or improve existing equipment are capitalized. Upon disposition or retirement of equipment, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are three to seven years.

Impairment of Long-Lived Assets. Blast reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. Blast assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair

value.

Stock Options and Warrants. Blast accounts for all stock-based employee compensation plans in accordance with Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), which permits the measurement of compensation expense in accordance with Accounting Principles Board Opinion 25 *Accounting for Stock Issued to Employees* ("APB 25"). Under APB 25, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to or in excess of the market value of the underlying common stock on the date of grant. Blast accounts for stock-based compensation issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, *Accounting for Equity Investments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling Goods or Services*. Common stock issued to non-employees and consultants is based upon the fair value of the services received or the fair value of the equity instruments issued whichever value is more reliably measurable.

		2005		2004
Net loss as reported	$	(2,862,231)	$	(8,766,108)
Add: intrinsic value of stock-based compensation		-		245,829
Less: stock based compensation determined				
under fair value-based method		(354,290)		(2,337,230)
Pro forma net loss	$	(3,216,521)	$	(10,857,509)
Basic and diluted net loss per common share:				
As reported	$	(.08)	$	(.28)
Pro forma		(.09)		(.35)

The weighted average fair value of the stock options granted during 2005 and 2004 was $.08 and $1.78, respectively. Variables used in the Black-Scholes option-pricing model include (1) 2% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each period end, (3) expected volatility is 69% to 153% and (4) zero expected dividends.

Income Taxes. Blast utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

Earnings Per Share. Basic earnings per share equals net earnings divided by weighted average shares outstanding during the year. Diluted earnings per share include the impact on dilution from all contingently issuable shares, including options, warrants and convertible securities. The common stock equivalents from contingent shares are determined by the treasury stock method. Blast has incurred net losses for the years ended December 31, 2005 and 2004 and has, therefore, excluded certain securities from the computation of diluted earnings per share as the effect would be anti-dilutive.

Recently Issued Accounting Pronouncements. In December 2004, the FASB issued SFAS No. 123R, "Accounting for Stock-Based Compensation." SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which and entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS

No. 123 shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The impact of the adoption of this new accounting pronouncement would be similar to the Company's calculation of the pro forma impact on net income of FAS 123 included in Note 1 above.

Reclassifications. Certain amounts in the financial statements of the prior year have been reclassified to conform to the presentation of the current year for comparative purposes.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, Blast incurred a net loss of $2.9 million for the year ended December 31, 2005, has an accumulated deficit of $29.9 million and a working capital deficit of $0.6 million as of December 31, 2005 and has several significant future financial obligations. These conditions create an uncertainty as to Blast's ability to continue as a going concern. Management is trying to raise additional capital. The financial statements do not include any adjustments that might be necessary if Blast is unable to continue as a going concern.

NOTE 3 - EQUIPMENT

Equipment consisted of the following at December 31, 2005:

Description	Life	Amount
Rig under construction	12 years	$ 944,355
Computer equipment	3 years	31,246
Automobile	4 years	19,300
Service Trailer	5 years	4,784
		$ 999,685
Less: accumulated depreciation		(22,416)
		$ 977,269

During the first quarter of 2005, one of Blast's three rigs was transferred to Maxim TEP under the terms of the Technology Assignment Agreement. In October 2005, Blast conveyed the second of its Landers technology rigs to Edge Capital as part of the Settlement Agreement & Mutual Release entered into between the parties. In December 2005 the remaining rig and related spare parts, was transferred to Maxim TEP (See Note 4).

Depreciation expense totaled $91,449 and $159,352 in 2005 and 2004, respectively.

NOTE 4 - INTELLECTUAL PROPERTY ("IP")

Blast entered into a license agreement on April 23, 2003 for the exclusive use of the Landers lateral drilling process. On March 8, 2005, Blast assigned its rights in that license to Maxim TEP, Inc. ("Maxim") along with all current and future assignments, sublicenses or territorial royalty pertaining to the license. The President and CEO of Maxim is Dan Williams, a former President and CEO of Blast. As consideration, Maxim has paid $1,300,000 in principal payments and $500,000 in penalties for extending the payment deadlines and released a $270,000 credit obligation we owed to Maxim. We will retain a non-exclusive sublicense interest in the Landers license, as long as we pay all required royalties on which the Landers Horizontal Technology is utilized. The carrying value of the IP was impaired by $3,175,000 at December 31, 2004 to recognize the sale of the license.

In connection with the assignment, Blast sold two of its three drilling rigs for the release of a customer deposit obligation that Blast owed Maxim. Maxim took delivery of the first rig during the first quarter and the second rig was delivered to Maxim in the fourth quarter. The rigs were sold as a package and the gain on the sale of the first rig of $41,890 had been deferred and Blast recognized as a loss on the second rig in the fourth quarter. Blast continued to

depreciate the second rig until its delivery to Maxim in the fourth quarter. The Equipment asset includes the cost incurred to date for the abrasive fluid jetting rig that is currently under construction.

On July 15, 2005, Blast entered into an agreement to develop its initial abrasive jetting rig with Berg McAfee Companies, LLC ("BMC"), a major shareholder. The arrangement involves two loans for a total of $1 million to fund the completion of the initial rig and sharing in the expected rig revenues for a ten-year period. As of December 31, 2005, Blast received $1,000,000 in funding under this agreement. Under the terms of the loan agreement with BMC, cash revenues will be shared on the basis of allocating 90% to Blast and 10% to BMC for a ten-year period following repayment. After ten years, Blast will receive all of the revenue from the rig. The loan, which carries an average interest rate of 7.4%, has a senior and subordinated structure due September 15, 2006 and September 30, 2006, respectively. In February 2006, Blast and Berg McAfee Companies, our major shareholder, mutually agreed to extend the Maturity Date of the AFJ Rig Loans from September 2006 to March 31, 2007. BMC also has the option to fund an additional three rigs under these commercial terms.

On August 25, 2005, Blast entered into a purchase agreement with Alberta Energy Holdings Inc. ("Alberta") to purchase a one-half interest in Alberta's Abrasive Fluid Jet ("AFJ") cutting technology. The purchase agreement replaces in its entirety an October 2004 licensing agreement between Blast and Alberta. Blast issued to Alberta 3,000,000 restricted shares of its common stock and 750,000 warrants exercisable at $.45 per share for the purchase of Blast common shares. The warrants are exercisable at such time as a minimum of $225,000 in revenue has been received by operation of Blast Rig # 1, and expire three years from date of issuance. The fair value of the award will be measured and recognized at which time Blast achieves the $225,000 revenue mark. In addition, one half of Blast's 50% share of the revenue stream from licensing of the technology shall be paid to Alberta, in addition to Alberta's own one-half, until Alberta has received $2 million. Thereafter, Blast and Alberta will share licensing revenue equally. Blast shall not own its full 50% in the technology until all of the $2 million has been paid, but shall own a 20% interest initially with ownership increasing at the same percentage as the $2million dollars is paid to Alberta. Royalties are payable to Alberta at the rate of $2,000 per well or 2% of gross revenues received, whichever is greater, for each well bore in which Blast uses the technology. The agreement shall remain in effect for the commercial life of the technology. Alberta also has agreed to continue the provision of consulting services to Blast at the rate of $10,000 per month through December 31, 2005.

At December 31, 2005 the total cost of the Intellectual Property was $1,170,000 with $27,857 of accumulated amortization. The IP, composed of the 50% ownership in the Alberta technology, is being amortized on a straight-line method over the life of the patent, which is 14 years.

NOTE 5 - ACCRUED EXPENSES

Accrued expenses at December 31, 2005 consisted of the following:

Description	Amount
Accrued payroll	$ 221,951
Director fees	135,500
Interest	61,332
Other	115,059
	$ 533,842

NOTE 6 - DEFERRED REVENUE

Blast bills some of its satellite bandwidth contracts in advance over periods ranging from 3 to 36 months. Blast recognizes revenue evenly over the contract term. Deferred revenue related to satellite services totaled $131,425, of which $119,880 will be recognized in the next twelve months.

NOTE 7 - ADVANCES - RELATED PARTIES

During 2005, under the agreement to develop its initial abrasive jetting rig with Berg McAfee Companies, funded primarily by Eric McAfee and Clyde Berg, each of whom are considered significant holders of Blast, $1 million rig funding was received (see note 4). The loan matures on March 31, 2007.

NOTE 8 - NOTES PAYABLE - RELATED PARTIES

Notes payable - related parties at December 31, 2005 consisted of the following:

Convertible promissory notes with related individual and entity, 8%, maturing on May 31, 2006, issued in connection with 100% warrant coverage to purchase Blast common	$ 200,000

stock at $.001 per share until October 26, 2005, conversion rate of one share of common stock for every $2.00 of outstanding principal and unpaid interest.	
Less: discount for warrants	(23,840)
	$ 176,160

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NOTE 9 - NOTES PAYABLE

Current Notes payable at December 31, 2005 consisted of the following:

Convertible promissory notes, 8%, maturing on December 31, 2005, issued in connection with 100% warrant coverage to purchase Blast common stock until December 31, 2005, conversion rate of one share of common stock for every $2.00 of outstanding principal and unpaid interest.	$	350,000
Note payable, individual, 10%, due on demand		45,000
	$	395,000
Long-Term Notes payable at December 31, 2005 consisted of the following:		
Promissory Note with Charles Steinberger, a previous CEO of the Company, becomes due on June 30, 2007 and carries no interest. Blast Energy has the option to pay the Note early and in the event that the price of Blast Energy common stock trades on average greater that $2.00 per share for the 20 trading days prior to the due date, the Note will no longer be payable. (see Note 16 - Litigation)	$	500,000

NOTE 10 - RELATED PARTY REVENUES

Energy 2000 NGC, Inc. (“Energy 2000”) is a subsidiary of Berg McAfee Energy, LLC, a wholly owned subsidiary of Berg McAfee Companies. Berg McAfee Companies are beneficial owners of 17% of Blast and Eric McAfee is a former Vice Chairman and CEO of Blast. In April 2003, Blast signed a drilling service contract with Energy 2000, whereby Energy 2000 would have paid Blast a minimum of $1,800,000 for lateral drilling of 45 wells. In September, 2003 Blast entered into another contract with Energy 2000 for an additional 57 wells with terms similar to the original contract. This contract was suspended for lack of payment.

Blast billed $666,250 and $153,960 to Energy 2000 and NGS, respectively, for services performed in 2003. Blast received $397,500 and $130,000, respectively. However, Blast has inadequate documentation to substantiate whether some of the services were performed. For Energy 2000, Blast was able to substantiate $328,750 of revenue leaving $68,750 in deferred revenue. Blast billed $20,547 and $2,000 to Energy 2000 and NGS, respectively, for expenses incurred in 2004. The amount billed to Energy 2000 was deemed uncollectible and the amount billed to NGS was collected. As of December 31, 2004, deferred revenues from related parties totaled $0. In October 2004, Blast entered into an agreement with Berg McAfee Companies, Energy 2000 and Eric McAfee to settle several outstanding legal issues. Under the agreement, Blast is entitled to retain the $68,750 and Energy 2000 has waived all claims to the funds.

NOTE 11 - INCOME TAXES

During 2005 and 2004, Blast incurred net losses and, therefore, had no tax liability. The net deferred tax asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately $16,500,000 at December 31, 2005, and will expire in the years 2019 through 2025.

At December 31, 2005, deferred tax assets consisted of the following:

Deferred tax assets	
Net operating losses	$ 5,880,000
Less: valuation allowance	(5,880,000)
Net deferred tax asset	$ 0

The change in the valuation allowance for the years ended December 31, 2005 and 2004 totaled $420,000 and $1,800,000, respectively.

NOTE 12 - COMMON STOCK

In June 2005, Blast shareholders approved the increase in the number of authorized common shares from 50 million to 100 million.

During 2004, Blast issued 3,816,426 shares of common stock as follows:

- 829,500 shares issued in a series of private placement offerings for total proceeds of $634,000. Two year warrants to purchase 71,800 shares of common stock at a price of $2.00 per share were issued in connection with one of the private placements. The proceeds were allocated between the common stock and the warrants based on their respective relative fair values. Offering costs consisted of 17,950 shares of common stock and 7,180 warrants exercisable at $2.00 per share until August 23, 2006.
- 47,950 shares issued in payment of legal and consulting services in connection with private placements.
- 104,000 shares issued in payment of accounts payable valued at $51,977.
- 300,000 shares issued in repayment of notes payable, accrued interest and licensing fees valued at $1,920,000.
- 1,207,198 shares issued as a result of cash exercise of warrants and options valued at $81,217. The exercised warrants included a cashless exercise of 400,000 warrants for 395,022 shares of common stock.
- 277,778 shares issued pursuant to a prior period fundraising agreement.
- 1,050,000 shares issued as a result of lawsuit settlements valued at $838,000.

During 2005, Blast issued 8,616,786 shares of common stock as follows:

- 900,000 shares issued in a private placement offering for total proceeds of $540,000.
- 613,903 shares issued in payment of legal and consulting services valued at $286,659.
- 3,000,000 shares issued in connection with a technology acquisition valued at $1,170,000.
- 675,000 shares issued as a result of cash exercise of warrants and options valued at $75,400.
- 508,800 shares issued pursuant to a prior period fundraising agreement valued at $239,900.
- 1,185,750 shares issued in repayment of notes payable, accrued interest and salaries valued at $469,778.
- 1,733,333 shares issued as a result of lawsuit settlements valued at $713,500.

NOTE 13 - STOCK OPTIONS AND WARRANTS

Options

During 2004, Blast issued 1,152,000 options as follows:

- 230,000 options vesting over 12 months were issued to officers at market price of $4.28.
- 80,000 options vesting at grant date were issued to non-employee directors at market price of $4.28.
- 72,000 options vesting quarterly over one year, were issued to non-employee directors at market price of $2.20.
- 770,000 options vesting quarterly over 3 years were issued to officers at market price of $0.90.

During 2005, Blast issued 2,412,000 options as follows:

- 270,000 ten-year options, vesting quarterly over 36 months, issued to employees at market prices of $0.38 to $0.50. 80,000 of these options were subsequently cancelled upon the termination of employment.
- 72,000 ten-year options, vesting over 12 months, issued to non-employee directors at market price of $0.38.
- 900,000 options, vesting at grant date at an exercise price of $0.10, relating to a settlement agreement were reinstated, of which only 300,000 may be exercised in the first year.
- 1,170,000 ten-year options issued to employees at market price of $0.80. 1,000,000 vest quarterly over 30 months and 170,000 vest quarterly over 36 months.

Warrants

Blast issues warrants to non-employees from time to time. The board of directors has discretion as to the terms under which the warrants are issued. All warrants vest immediately unless specifically noted in warrant agreements.

During 2004, Blast issued warrants to purchase 780,980 shares of common stock as follows:

- 37,000 warrants, with an exercise price of $2.00 and a one year term, were issued in connection with one year promissory notes totaling $185,000. The notes have been discounted for the relative fair value of the warrants.
- 78,980 warrants, with an exercise price of $2.00 and a two-year term, were issued in connection with the raise of funds in a private placement offering that raised $359,000. The warrants were recorded as part of the offering costs of the private placement.
- 100,000 warrants, with an exercise price of $0.001 and a one-year term, were issued in connection with convertible notes totaling $200,000. The notes have been discounted for the relative fair value of the warrants.
- 75,000 warrants, with an exercise price of $0.01 and a two-year term, were issued to third party lenders in connection with a $150,000 convertible note. The notes have been discounted for the relative fair value of the warrants.
- 140,000 warrants, 20% of which vested immediately and the balance vesting at the rate of 20% every 90 days thereafter, with an exercise price of $0.80 and a two-year term were issued to subcontractors.
- 100,000 warrants, with an exercise price of $0.001 and a one-year term, were issued in connection with convertible notes totaling $200,000. The notes have been discounted for the relative fair value of the warrants.
- 250,000 warrants, with an exercise price of $0.50 and a three-year term, were issued as part of a licensing agreement. The fair value was expensed in 2004.

During 2005, Blast issued warrants to purchase 2,348,800 shares of common stock as follows:

- 848,800 warrants, with an exercise price of $1.00 and a two-year term, were issued in connection with the raise of funds in a private placement offerings that raised $830,000. The warrants were recorded as part of the offering costs of the private placement.
- 750,000 warrants, with an exercise price of $1.00 and a three-year term, were issued in connection with the settlement of a legal dispute. The fair value was expensed in 2005.
- 750,000 warrants, with an exercise price of $0.45 and a three-year term, were issued as part of a licensing agreement. The fair value was expensed in 2005.

Summary information regarding options and warrants is as follows:

	Options	Weighted Average Share Price	Warrants	Weighted Average Share Price
Outstanding at December 31, 2003	4,112,376	$ 1.35	4,424,715	$ 0.38
Year ended December 31, 2004:				
Granted	1,152,000	1.89	780,980	0.48
Exercised	(369,583)	0.10	(837,605)	0.10
Forfeited	(2,481,113)	1.47	(573,871)	0.18
Outstanding at December 31, 2004	2,413,680	1.67	3,794,219	0.49
Year ended December 31, 2005:				
Granted	1,512,000	0.71	2,348,800	0.82
Exercised	-	-	(675,000)	0.11
Reinstated	900,000	0.56	-	-
Forfeited	(386,888)	0.12	(1,647,833)	0.18
Outstanding at				

December 31, 2005	4,438,792	$	1.36	3,820,186	$ 0.90

Options outstanding and exercisable as of December 31, 2005:

	- - Outstanding - -		
Exercise Price	Number of Shares	Weighted Average Remaining life	Exercisable Number of Shares
$ 0.10	1,854,792	8.9 years	1,709,346
4.28	310,000	9 years	252,500
2.20	72,000	9 years	36,000
0.38	72,000	10 years	72,000
0.40	190,000	10 years	190,000
0.80	1,170,000	10 years	1,170,000
0.90	770,000	10 years	128,333
	4,438,792		3,558,179

Warrants outstanding and exercisable as of December 31, 2005:

	- - Outstanding - -		
Exercise Price	Number of Shares	Weighted Average Remaining life	Exercisable Number of Shares
$ 0.01 - 0.50	735,889	1.0 years	735,889
1.00	2,683,800	2.4 years	2,683,800
2.00	317,163	1.1 years	317,163
6.00	83,334	3.0 years	83,334
	3,820,186		3,820,186

NOTE 14 - CONCENTRATIONS

One customer accounted for 25% and 9% of total revenues in 2005 and 2004, respectively. Related parties accounted for 0% and 2% of total revenues in 2005 and 2004, respectively.

Blast at times has cash in bank in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. At December 31, 2005, Blast had $735,978 in cash in excess of FDIC insurance limits.

Blast performs ongoing credit evaluations of its customers' financial condition and does not generally require collateral from them.

NOTE 15 - COMMITMENTS & CONTINGENCIES

Under the terms of the Landers lateral drilling license (see Note 4), Blast is obligated to pay a royalty of $500 for every well in which that technology is utilized. The Landers license expires upon the expiration of the underlying patents, the earliest date being October 2013.

In November 2004, Blast entered into a worldwide licensing agreement with Alberta. The licensing agreement was replaced in its entirety in August 2005 when Alberta sold up to 50% of its interest in the AFJ technology. In return, Blast agreed to award 3 million shares of Blast stock to Alberta and to fix the price of the 1 million previously awarded warrants. Blast also agreed to pay a royalty to Alberta based on the greater of 2% of gross revenues or $2,000

per well. The agreement awarded Blast 20% ownership, which would accrete to 50% based upon license revenue sharing provisions. (See Note 4)

Three of Blast's employees are under employment agreements. One agreement was entered into June 2003 and provides for a base salary of $150,000 in year one, $180,000 in year two and $210,000 in year three. This agreement has been amended to provide a base of $175,000. The other agreements have a one year term but provide for one year renewals. One of the agreements is for a minimum base salary of $185,000, while the other agreement provides for a $20,000 escalation for two years from the original base salary of $175,000 in 2004. These agreements have been amended to provide a base of $200,000.

On August 25, 2005, Blast amended its AFJ Construction Agreement, under which Alberta will engineer, design, source and build the AFJ Rig, to provide for a lump-sum price of $900,000 rather than the earlier price of $850,000. Under the agreement the first $100,000 of budget overruns will be borne by Alberta, with additional overruns being the responsibility of Blast. As of December 31, 2005, Blast had expended $944,355 towards the rig under construction and anticipates the total cost to approximate $1.2 million.

NOTE 16 - LITIGATION

Claims by Investor (Partial Settlement)
In February 2005, we entered into an Agreed Judgment and Order of Severance with Gryphon Master Fund, L.P. (“Gryphon”) as to all breach of contract claims related to our delay in registering common stock acquired by Gryphon in October 2003. Under the terms of the Agreed Judgment, we were obligated to pay $500,000 to Gryphon and has satisfied this obligation, resulting in a discharge of the agreed judgment. In connection with the lawsuit, Gryphon has alleged, among other things, securities fraud by us. In connection with the lawsuit, Gryphon requested actual damages, punitive damages, interest, cost and attorneys’ fees among other claims. Gryphon has made a settlement demand on the company for $2.1 million, which it purports to represent the actual damages it has sustained. If Gryphon prevails on the remaining claims, it may obtain significant damages that may have a material adverse effect on our financial condition.

Securities and Exchange Commission Investigation
Blast received notice in January 2004 that the Securities and Exchange Commission (“SEC”) has initiated a formal investigation into its reporting practices and public statements about Blast in 2003.

The SEC has requested substantiation and documentary evidence from Blast concerning the performance of certain lateral drilling services by subcontractors in the period from May 2003 to September 2003, supervision of such services by Blast‘s executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to Blast’s acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003. In its letters to Blast requesting documents, the SEC stated that the staff’s inquiry should not be construed as an indication that any violations of securities laws have occurred or as an adverse reflection on any persons, company or security.

Since December 2003, Blast has taken several steps to address issues related to the SEC’s inquiries, including the termination and replacement of the previous Chief Executive Officer and Chief Operating Officer and the reassignment of its Chief Financial Officer. Two directors have resigned from the Blast‘s board and Blast has appointed a new CFO. Internal controls have been strengthened overall, particularly with respect to the public release of Blast information and the recognition of revenue. Blast had also initiated an internal investigation of the matters of concern to the SEC. Consequently, Blast restated its second and third quarter financial statements for fiscal year 2003 and deferred all revenue related to the aforementioned period until such time that it can substantiate whether or not the services were performed.

Blast is cooperating fully with the SEC, including the provision of numerous documents and voluntary testimony by its current executives. In December 2004, the staff of the SEC notified Blast that it was considering recommending that the SEC bring a civil injunction (including a possible permanent injunction and a civil penalty) against Blast alleging violations of provisions of the Sections 10(b), 13(b)(2)(A), 13(b)(2)(B) and 15(d) of the Securities Exchange Act of 1934 and rules promulgated thereunder in connection with the purchase and sale of securities of Blast, recordkeeping, internal controls, certification and disclosure obligations. Blast was notified of its right to make a Wells submission. Blast has provided information to the SEC setting forth the specific steps it has taken to upgrade the quality and effectiveness of its board of directors, replace the previous management team with industry experts, improve its recordkeeping, internal and disclosure controls, and revenue recognition procedures. Although Blast is

working to bring the matter to a prompt conclusion, it cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on Blast's limited resources or its ability to raise capital and use its stock as acquisition currency during the period of the investigation.

General

Blast has never been in bankruptcy, receivership or any similar legal proceeding. Other than the aforementioned legal matters, Blast is not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years.

As part of its regular operations, Blast may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its' commercial operations, products, employees and other matters. Although Blast can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, Blast believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on Blast's financial condition or results of operations.

NOTE 17 - NON-CASH TRANSACTIONS FOR CASH FLOW STATEMENTS

	2005	2004
Conversion of notes payable and accrued interest to common stock	$ 251,888	$ 1,184,808
Stock issued for AFJ technology	1,170,000	-
Exchange of equipment for customer deposit	175,000	-
Exchange of equipment for accounts payable	3,883	-
Conversion of accounts payable to common stock	24,916	-
Discount on notes payable	224,960	133,746

NOTE 18 - BUSINESS SEGMENTS

Blast has two reportable segments: (1) Down-hole Solutions and (2) Satellite Communications. A reportable segment is a business unit that has a distinct type of business based upon the type and nature of services and products offered.

Blast evaluates performance and allocates resources based on profit or loss from operations before other income or expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The table below reports certain financial information by reportable segment:

	For the Years Ended December 31,	
	2005	2004
Revenues from external customers		
Down-hole Solutions	$ 27,491	$ 738,710
Satellite Communications	1,131,967	714,634
	$ 1,159,458	$ 1,453,344
Operating loss [1]		
Down-hole Solutions	$ (778,665)	$ (1,521,185)
Satellite Communications	467,142	(195,521)
Corporate	(2,823,381)	(6,933,201)
	$ (3,134,774)	$ (8,649,907)

1 - Operating loss is total operating revenue less operating expenses, selling general & administrative expenses, depreciation and amortization, bad debts, impairment expense and does not include other income and expense or income taxes.

Blast assets at December 31, 2005 and 2004 were as follows:

	For the Years Ended December 31,	
	2005	2004
Down-hole Solutions	$ 2,136,802	$ 1,854,643
Satellite Communications	180,582	73,936
Corporate	1,025,856	313,541
	$ 3,343,240	$ 2,242,120

All of Blast's long-term assets are attributable to North America.

The following table sets forth financial information with respect to Blast's revenues by geographic area:

	2005	2004
United States	$ 978,582	$ 1,279,053
Africa	180,876	174,291
	$ 1,159,458	$ 1,453,344

NOTE 19 - SUBSEQUENT EVENTS

In January 2006, Blast issued (in lieu of cash) 13,784 shares of common stock for the payment of 4th quarter, 2005 interest on Convertible Promissory Notes at $.80 per share (the average five-day closing price at year end).

In January 2006, holders of four Convertible Promissory Note Agreements dated July 23, 2004 totaling $350,000 converted their note principal amounts which were due on December 31, 2005, into shares of Company stock in lieu of cash payment. The original conversion terms including warrants, but excluding 8% interest, would equate to a $1.00 per share investment value. The conversion includes a premium in the number of shares converted in order to lower the value of the holder's investment to $.60 per share, which is the same price of the Company's December 2005 private placement. Blast issued 175,000 shares of common stock related to the conversion of the $350,000 in notes at a conversion price of $2.00 per share and 233,333 shares of common stock related to the premium on the conversion.

In January 2006, Blast issued 28,000 shares of its common stock to a warrant holder who exercised their warrant option at an exercise price of $2,800.

In February 2006, Blast and Berg McAfee Companies, our major shareholder, mutually agreed to extend the Maturity Date of the AFJ Rig Loans from September 2006 to March 31, 2007.

In February 2006, Blast issued 449,100 shares of its common stock to warrant holders who exercised their warrants at an average exercise price of $0.20 and generating proceeds of $91,910.

In March 2006, Alberta Energy Partners accelerated the revenue sharing provisions of the Technology Purchase Agreement and assigned the full 50% ownership of the AFJ technology to Blast effective immediately. Blast had previously owned only 20% and the receipt of the remaining 30% balance had been contingent upon the sharing of future revenues. In exchange for the assignment of the 30% balance, Blast agreed to be responsible for 50% of the costs to protect the patents. Blast does not expect these costs to have an impact on our financial position, results of operation or cash flow.

NOTE 20 - RESTATEMENT

During 2005, Blast agreed to sell our lateral drilling license for $1.3 million in cash. Subsequently, we determined that these proceeds should have been classified as "Cash from Investing Activities" rather than included in "Cash from Operations". Consequently, the statement of cash flows for 2005 was restated for the line items shown below. The net increase in cash during the period of $ 569,061 remained unchanged.

	For the Year Ended December 31,	
	2005	**2005**
	(as Originally Filed)	(Restated)
Cash Flows From Operating Activities:		
Change in working capital items	1,327,289	27,289
Net Cash Used In Operating Activities	(566,675)	(1,866,675)
Cash Flows From Investing Activities:		
Proceeds from sale of license	-	1,300,000
Net Cash Provided by Investing Activities	(714,564)	585,436

BLAST ENERGY SERVICES, INC.
BALANCE SHEET
As of June 30, 2006
(Unaudited)

Assets		**June 30, 2006** (Unaudited)
Current Assets		
Cash	$	223,228
Accounts Receivable, net of allowance for doubtful accounts of $10,290 and $10,290		135,879
Other Assets		205,116
Current Assets		564,223
Intellectual Property, net of $69,643 and $27,857 accumulated amortization		1,100,357
Equipment, net of $33,252 and $22,416 accumulated depreciation		1,076,951
Total Assets	$	2,741,531
Liabilities and Stockholder's Deficit		
Current Liabilities		
Accounts payable	$	601,255
Accrued expenses		416,026
Deferred revenue		74,593
Notes payable-related parties, net of unamortized discount of $-0- and $14,814		-
Notes payable-other		542,500
Total Current Liabilities		1,634,374
Long Term Liabilities		
Advances-related parties		1,000,000
Note payable-other		-
Deferred revenue, less current portion		6,780
Total Liabilities		2,641,154
Commitments and Contingencies		-
Stockholders' Equity/(Deficit)		
Common stock, $.001 par value, 100,000,000 shares authorized, 43,640,404 and 42,060,477 shares issued and outstanding		44,790
Additional paid in capital		31,962,163
Accumulated deficit		(31,906,576)
Total Stockholders' Equity/(Deficit)		100,377
Total Liabilities and Stockholders' Equity	$	2,741,531

See accompanying notes to financial statements.

BLAST ENERGY SERVICES, INC.
STATEMENTS OF OPERATIONS
Three and Six Months Ended June 30, 2006 and 2005
(Unaudited)

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005 (Restated)	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005 (Restated)
Revenue:				
Satellite Communications	$ 265,082	$ 235,973	$ 557,044	$ 508,775
Down-hole Solutions	14,150	4,010	14,150	18,991
Total Revenue	279,232	239,983	571,194	527,766
Cost of Services Provided:				
Satellite Communications	298,126	211,315	503,269	385,118
Down-hole Solutions	300,602	118,068	432,847	237,552
Total Cost of Services Provided	598,728	329,383	936,116	622,670
Gross Margin (Deficit)	(319,494)	(89,400)	(364,922)	(94,904)
Operating Expenses:				
Selling, general and administrative	593,524	487,337	1,306,386	1,521,964
Depreciation, amortization & other	25,909	20,219	52,622	59,488
Operating Loss	(938,927)	(596,956)	(1,723,930)	(1,676,356)
Other (Income) Expense:				
Other (income)	(39,128)	-	(81,661)	-
Interest expense	29,571	45,601	73,448	96,862
Loss on extinguishment of debt	80,000	-	262,000	-
Gain on sale	-	-	-	(971)
Interest income	-	-	-	(4)
Total other (income)/expense	70,443	45,601	253,787	95,887
Net Loss	$ (1,009,370)	$ (642,557)	$ (1,977,717)	$ (1,772,243)
Basic and diluted net loss per share	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.05)
Weighted average shares outstanding	43,697,634	36,067,903	43,199,118	35,440,245

See accompanying notes to financial statements.

BLAST ENERGY SERVICES, INC.
STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2006 and 2005
(Unaudited)

	For the Six Months Ended June 30,	
	2006	**2005** (Restated)
Cash Flows From Operating Activities:		
Net loss	$ (1,977,717)	$ (1,772,243)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock issued for services or litigation	644,000	1,029,361
Option and warrant expense	173,833	50,000
Amortization of note discount	14,814	64,837
Depreciation and amortization	52,622	49,488
Loss on extinguishment of debt	262,000	(971)
Receivable from related party	100	-
Bad debts	-	10,000
Change in working capital items	(158,268)	(19,700)
Net Cash Used In Operating Activities	(988,616)	(589,228)
Cash Flows From Investing Activities:		
Construction of equipment	(68,633)	(590,335)
Proceeds from sale of license	-	500,000
Purchase of property and equipment	(21,885)	-
Net Cash Used In Investing Activities	(90,518)	(90,335)
Cash Flows From Financing Activities:		
Proceeds from sale of stock	300,000	241,500
Proceeds from exercise of options and warrants	168,885	250
Advance on future financing		249,500
Payments on note payable	(2,500)	-
Net Cash Provided By Financing Activities	466,385	491,250
Net change in cash	(612,750)	(188,313)
Cash at beginning of period	835,978	266,917
Cash at end of period	$ 223,228	$ 78,604
Non-Cash Transactions:		
Conversion of notes payable and interest payable to common stock	$ 567,996	$ 200,004
Shares issued for extinguishment of debt and liabilities	282,000	253,287
Exchange of equipment for customer deposit	-	175,000
Exchange of equipment for accounts payable	-	3,883

See accompanying notes to financial statements.

BLAST ENERGY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Blast Energy Services, Inc. ("Blast") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Management's Discussion and Analysis and the audited financial statements and notes thereto contained in Blast's 2005 Annual Report filed with the SEC on Form 10-KSB. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for 2005 as reported in the 10-KSB have been omitted.

Reclassifications. Certain amounts in the financial statements of the prior year have been reclassified to conform to the presentation of the current year for comparative purposes.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, Blast incurred a net loss of $1.0 million for the three months ended June 30, 2006, has an accumulated deficit of $31.9 million and a working capital deficit of $1.1 million as of June 30, 2006 and has several significant future financial obligations. The financial statements do not include any adjustments that might be necessary if Blast is unable to continue as a going concern. These conditions create an uncertainty as to Blast's ability to continue as a going concern. Management is trying to raise additional capital but there are no assurances that such efforts will be successful.

NOTE 3 - STOCK OPTIONS AND WARRANTS

On January 1, 2006, Blast adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). This replaced SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. Blast adopted SFAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated financial statements as of and for the quarter ended June 30, 2006 reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Prior to 2006, compensation was recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price.

	For the Three Months Ended	**For the Six Months Ended June 30, 2005**

		June 30, 2005		
Net loss as reported	$	(642,557)	$	(1,772,243)
Less: stock based compensation determined				
Under fair value based method		(84,171)		(165,804)
Pro forma net loss	$	(726,728)	$	(1,938,047)
Basic and diluted net loss per common share:				
As reported	$	(.02)	$	(.05)
Pro forma	$	(.02)	$	(.05)

The weighted average fair value of the stock options granted during the three months ended June 30, 2006 and 2005 was $.61 and $.42 per share, respectively. Variables used in the Black-Scholes option-pricing model include (1) 2% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each period end, (3) expected volatility is 155% and 153%, respectively, and (4) zero expected dividends.

NOTE 4 - INTELLECTUAL PROPERTY

On March 17, 2006 Blast replaced in their entirety both its August 25, 2005 purchase agreement and October 2004 licensing agreement with a revised Technology Purchase Agreement with Alberta Energy Partners ("Alberta") to purchase a one-half interest in Alberta's Abrasive Fluid Jet ("AFJ") cutting technology. Blast issued to Alberta 3,000,000 common shares and 750,000 warrants exercisable at $.45 per common share. The warrants are exercisable at such time as a minimum of $225,000 in revenue has been received by operation of Blast Rig #1, and expire three years from date of issuance. The fair value of the award will be measured and recognized at which time Blast achieves the $225,000 revenue mark. In addition, one half of Blast's 50% share of the revenue stream from licensing of the technology shall be paid to Alberta, in addition to Alberta's own one-half, until Alberta has received $2 million. Thereafter, Blast and Alberta will share licensing revenue equally. Royalties are payable to Alberta at the rate of $2,000 per well or 2% of gross revenues received, whichever is greater, for each well bore in which Blast uses the technology. The agreement shall remain in effect for the commercial life of the technology.

At June 30, 2006 the total cost of the Intellectual Property was $1,170,000 with $69,643 of accumulated amortization. The patent-pending IP, composed of the 50% ownership in the Alberta technology, is being amortized on a straight-line method over the life of the patent, which is 14 years.

NOTE 5 - STOCKHOLDERS EQUITY

In the first quarter of 2006, Blast issued a total of 994,030 shares of common stock as follows:
- 135,000 shares valued at $202,500 were issued to a consultant.
- 377,100 shares were issued pursuant to warrants exercised for $74,710 cash.
- 175,000 shares were issued for the payment of $350,000 of notes payable that matured on 12/31/05.
- 233,333 shares were issued as a premium on the conversion of notes payable that matured on 12/31/05.
- 13,783 shares were issued for the payment of 4th quarter 2005 accrued interest on convertible promissory notes.
- 59,814 shares of common stock were reinstated to an existing shareholder.

In the second quarter of 2006, Blast issued a total of 1,735,897 shares of common stock as follows:
- 33,333 shares valued at 20,000 were issued in exchange for services.
- 159,375 shares were issued for the payment of 2005 deferred director fees.
- 392,500 shares were issued in payment of 2005 executive performance bonus.
- 600,000 shares were issued pursuant to a private placement resulting in gross cash proceeds in the amount of $300,000.
- 309,107 shares were issued pursuant to warrants exercised for $94,275 cash.
- 100,000 shares were issued for the payment of $200,000 of notes payable that matured on 05/31/06.
- 133,430 shares were issued as a premium on the conversion of notes payable that matured on 05/31/06.
- 8,152 shares were issued for the payment of 2006 accrued interest on notes payable that matured on 05/31/06.

NOTE 6 -NOTES PAYABLE

In January 2006, Blast issued (in lieu of cash) 13,783 shares of common stock for the payment of 4th quarter, 2005 interest on Convertible Promissory Notes at $.80 per share (the average five-day closing price at year end).

In January 2006, holders of four Convertible Promissory Note Agreements dated July 23, 2004 totaling $350,000 converted their Note principal amounts which were due on December 31, 2005, into shares of Company stock in lieu of cash payment. The original conversion terms including warrants, but excluding 8% interest, would equate to a $1.00 per share investment value. The conversion includes a premium in the number of shares converted in order to lower the value of the holder's investment to $.60 per share. This conversion value was based upon the same value of a private placement closed during December 2005. Blast issued 175,000 shares of common stock at a conversion price

of $2.00 per share and 233,333 shares of common stock related to the premium on the conversion.

In June 2006, Blast issued (in lieu of cash) 6,666 shares of common stock for the payment of 1st and 2nd quarter 2006 interest on Convertible Promissory Notes at $1.08 per share (the average five-day closing price at quarter end March 31, 2006 and for the two months ended on May 31, 2006 of $0.60).

In June 2006, holders of two Convertible Promissory Note Agreements dated October 26, 2004 totaling $200,000 converted their Note principal amounts which were due on May 31, 2006, into shares of Company stock in lieu of cash payment. The original conversion terms including warrants, but excluding 8% interest, would equate to a $1.00 per share investment value. The conversion includes a premium in the number of shares converted in order to lower the value of the holder's investment to $0.60 per share. This conversion value was based upon the same value of a private placement closed during December 2005. Blast issued 200,000 shares of common stock at a conversion price of $2.00 per share and 133,430 shares of common stock related to the premium on the conversion.

Advances - Related Parties

On July 15, 2005, Blast entered into an agreement to develop its initial abrasive jetting rig with Berg McAfee Companies, LLC ("BMC"), a major shareholder. The arrangement involves two loans for a total of $1 million to fund the completion of the initial rig and sharing in the expected rig revenues for a ten-year period. As of December 31, 2005, Blast received $1 million in funding under this agreement. Under the terms of the loan agreement with BMC, cash revenues will be shared on the basis of allocating 90% to Blast and 10% to BMC for a ten-year period following repayment. After ten years, Blast will receive all of the revenue from the rig. The loan, secured by the value of the rig, which carries an average interest rate of 7.4%, has a senior and subordinated structure due September 15, 2006 and September 30, 2006, respectively. In February 2006, Blast and Berg McAfee Companies, our major shareholder, mutually agreed to extend the Maturity Date of the AFJ Rig Loans from September 2006 to March 31, 2007. In consideration for the extension, BMC will earn additional interest during the extended loan period. BMC also has the option to fund an additional three rigs under these commercial terms.

NOTE 7 - BUSINESS SEGMENTS

Blast has two reportable segments: (1) Satellite Communications and (2) Down-hole Services. A reportable segment is a business unit that has a distinct type of business based upon the type and nature of services and products offered. Blast evaluates performance and allocates resources based on profit or loss from operations before other income or expense and income taxes. The table below reports certain financial information by reportable segment:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues from external customers				
Satellite communications	$ 265,082	$ 235,973	$ 557,044	$ 508,775
Down-hole services	14,150	4,010	14,150	18,981
	$ 279,232	$ 239,983	$ 571,194	$ 527,766
Operating profit/(loss) 1				
Satellite communications	$ (41,029)	$ 23,880	$ 39,719	$ 72,097
Down-hole services	(337,467)	(223,152)	(517,786)	(456,664)
Corporate	(560,436)	(397,684)	(1,245,863)	(1,291,784)
	$ (938,927)	$ (596,956)	$ (1,723,930)	$ (1,676,356)

1- Operating profit/(loss) is total operating revenue less operating expenses, selling general and administrative expenses, depreciation and amortization and bad debts. It does not include other income and expense or income taxes.

NOTE 8 - RESTATEMENT

On March 30, 2006, Blast restated its 2004 financial statements included in its 2004 Annual Report on Form 10-KSB and the 2005 financial statements included in its three 2005 Quarterly Reports on Form 10-QSB. These financial statements originally included the value of our Intellectual Property asset at cost since the independent valuation of the net present value of the future cash flows exceeded the acquisition cost. During 2005, Blast sold its lateral drilling license for $1.3 million over a period of time. Subsequently, it was determined that our asset valuation conclusions were incorrect and that the license sales agreement thereby established the asset value of the IP. Consequently, the value of the lateral drilling license was written down with a non-cash impairment charge of $3.2 million as of December 31, 2004 and the financial statements were restated.

During 2005, Blast sold its lateral drilling license for $1.3 million in cash over a period of time, including $500,000 received during the first six months of 2005. Subsequently, we determined that these proceeds should have been classified as “Cash from Investing Activities” rather than included in “Cash from Operations”. Consequently, the statement of cash flows for 2005 was restated for the line items shown below. The net decrease in cash during the period of $188,313 remained unchanged.

	For the Six Months Ended June 30,	
	2005 (as Originally Filed)	**2005** (Restated)
Cash Flows From Operating Activities:		
Change in working capital items	480,300	(19,700)
Net Cash Used In Operating Activities	(89,228)	(589,228)
Cash Flows From Investing Activities:		
Proceeds from sale of license	-	500,000
Net Cash Used In Investing Activities	(590,335)	(90,335)

NOTE 9 - SUBSEQUENT EVENTS

In July 2006, the Securities and Exchange Commission (SEC), as part of an agreed resolution of claims against Blast, has filed a civil complaint, consents, and proposed judgments against Blast and two individuals in the US District Court for the Southern District of Texas. The complaint and proposed judgments resolve the SEC’s formal investigation relating to Blast’s reporting practices and public statements made in 2003. Without admitting or denying the allegations in the complaint, Blast agreed to a proposed final judgment that includes a permanent injunction against Blast from violating Section 10(b) of the Exchange Act of 1934 and Rule 10b-5 thereunder. The proposed final judgment does not assess any civil penalties against Blast. This settlement is subject to the approval of the court.

On July 14, 2006 Blast received $150,000 as the remaining cash proceeds due from a May 2006 private placement agreement for 300,000 shares of common stock and 150,000 two-year warrants.

On August 25, 2006, Blast acquired Eagle Domestic Drilling Operations, LLC (“Eagle”). Eagle owns drilling equipment for the extraction of oil and gas. The purchase price was $50 million and 1.5 million shares of Blast common stock. The acquisition of Eagle was financed with senior debt made by Laurus Master Fund Ltd. of $40.6 million and associated and warrants, along with a private placement of common equity, and associated warrants, to the sellers of Eagle.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members
Eagle Domestic Drilling Operations, LLC
Norman, Oklahoma

We have audited the accompanying balance sheet of Eagle Domestic Drilling Operations, LLC as of December 31, 2005 and the related statements of revenues and expenses, owners' equity, and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of Eagle. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle Domestic Drilling Operations, LLC as of December 31, 2005, and the results of its revenues and expenses and its cash flows for the periods described above in conformity with accounting principles generally accepted in the United States of America.

MALONE & BAILEY, PC
www.malone-bailey.com
Houston, Texas

August 16, 2006

EAGLE DOMESTIC DRILLING OPERATIONS, LLC
BALANCE SHEET
December 31, 2005

ASSETS		
Property and equipment - equipment in progress	$	2,334,936
TOTAL ASSETS	$	2,334,936
LIABILITIES AND OWNER'S EQUITY		
Accounts payable - related party	$	2,334,936
Total Liabilities	$	2,334,936
Total Owners' Equity		-
TOTAL LIABILITIES AND OWNER'S EQUITY	$	2,334,936

See accompanying summary of accounting policies
and notes to financial statements.

EAGLE DOMESTIC DRILLING OPERATIONS, LLC
STATEMENTS OF REVENUES AND EXPENSES, OWNERS' EQUITY AND CASH FLOWS
Years Ended December 31, 2005 and 2004

During the years ended December 31, 2005 and 2004, Eagle had no operations, no equity transactions and no cash flow activity. Therefore, these financial statements are not presented.

See accompanying summary of accounting policies
and notes to financial statements.

EAGLE DOMESTIC DRILLING OPERATIONS, LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Nature of business. Eagle Domestic Drilling Operations, LLC (Eagle) was organized in Texas on March 3, 2003 as a limited liability company. Eagle’s articles of organization specify a termination date no later than December 24, 2032, unless continued by an affirmative vote of the remaining members. Eagle owns drilling equipment for the extraction of oil and gas.

Use of Estimates. In preparing financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenue and expenses in the statement of revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of the statement of cash flows, Eagle considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2005, Eagle had no cash or cash equivalents.

Revenue Recognition. Eagle recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured. To date, no revenue has been recognized.

Property and equipment. Property and equipment is valued at cost. Additions are capitalized and maintenance and repairs are charged to expense as incurred. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which is twenty years. To date, no depreciation has been recognized, as the assets were not placed in service until February 2006. Eagle reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the assets, Eagle recognizes an impairment loss based upon fair value of the asset.

Income taxes. Federal and State income taxes are not payable by, or provided for, the limited liability company. Partners are taxed individually on their share of partnership earnings. Partnership net revenue is allocated equally to the partners.

Recently issued accounting pronouncements. Eagle does not expect the adoption of recently issued accounting pronouncements to have a significant impact on Eagle’s results of operations, financial position or cash flow.

NOTE 2 - PROPERTY AND EQUIPMENT

The property and equipment owned by Eagle consists primarily of component pieces of drilling rigs for the extraction of oil and gas:

Collars	$ 40,000
Drill pipe	233,802
Motors	241,143
Pumps	449,017
Deposits on equipment	283,688
Other oilfield equipment	1,087,266
Total	$ 2,334,936

NOTE 3- RELATED PARTY TRANSACTIONS

During 2005, a company controlled by Eagle's members provided 100% of the financing used for the purchase of property and equipment. On October 29, 2005, Eagle hired another company controlled by Eagle's members to perform construction services on the equipment.

NOTE 4 - SUBSEQUENT EVENT

During May 2006, Eagle's members contributed $5,000 to cover the costs of ordinary expenses.

EAGLE DOMESTIC DRILLING OPERATIONS, LLC
COMBINED BALANCE SHEET
As of June 30, 2006
(Unaudited)

		June 30, 2006
ASSETS		
Cash	$	4,887
Property and equipment, net of $140,422 accumulated depreciation		6,988,976
Accounts receivable - related party		3,525,770
TOTAL ASSETS	$	10,519,633
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES		
Accounts payable - related party	$	7,041,926
Deferred income		1,822,200
TOTAL LIABILITIES		8,864,126
OWNERS' EQUITY		
Partners' capital		5,000
Accumulated deficit		1,650,507
TOTAL OWNERS' EQUITY		1,655,507
TOTAL LIABILITIES AND OWNERS' EQUITY	$	10,519,633

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EAGLE DOMESTIC DRILLING OPERATIONS, LLC
COMBINED STATEMENTS OF REVENUES AND EXPENSES
Three Months and Six Months Ended June 30, 2006 and 2005
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue	$ 2,008,630	$ -	$ 2,600,604	$ -
Operating Expenses:				
General and administrative	555,085	-	809,675	-
Depreciation expense	89,634	-	140,422	-
Total Operating Expenses	644,719	-	950,097	-
Net income	$ 1,363,911	$ -	$ 1,650,507	$ -

EAGLE DOMESTIC DRILLING OPERATIONS, LLC
COMBINED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2006 and 2005
(Unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		